North Carolina

Comprehensive Annual Financial Report

For the fiscal year ended June 30, 2009

Cover Photos:

North Carolina greats Etta Baker and Doc Watson, as well as the North Carolina mountains, are featured on the cover. The Office of the State Controller wishes to thank documentary photographer Cedric N. Chatterley for the photographs of Etta Baker and Doc Watson. The mountain photos were provided courtesy of the N.C. Department of Commerce's Division of Tourism, Film and Sports Development.

Etta Baker was a master of the blues guitar style that became popular in the southern piedmont after the turn of the century. She was raised in the foothills of Caldwell County where music was central in the lives of her family and friends. Both parents played several instruments, and Etta began picking the guitar at the age of three.

Mrs. Baker played the guitar and banjo. She rarely sang, preferring to let the instrument speak for her. Like most traditional artists, she played music for personal satisfaction and for the pleasure of friends and family. However, in 1956, her music was recorded on the influential album *Instrumental Music of the Southern Appalachians.* She was also featured on a 1972 recording *Music From the Hills of Caldwell County.* Her popular CD, *One Dime Blues*, came out in 1991 to great reviews.

In her last 30 years, Mrs. Baker carried her music far beyond the borders of Caldwell County. She performed at the National Folk Festival at Wolf Trap Park in Virginia, the 1984 World's Fair in Knoxville, the Kent State Folk Festival, and the Augusta Heritage Festival. In 1982 she and her sister Cora Phillips were honored jointly with the North Carolina Folklore Society's Brown-Hudson Award. She received the National Heritage Fellowship Award from the National Endowment for the Arts in 1991.

Etta Baker and her husband Lee raised nine children, many of whom carry on the family musical tradition. Mrs. Baker passed away in October, 2006 at the age of 93, having achieved international recognition for her artistry and for North Carolina's finger-picked blues tradition.

(Write-up of Etta Baker courtesy of the N.C. Department of Cultural Resources)

For more than three decades, Doc Watson has been America's most renowned and influential folk guitar stylist – known primarily for his flatpicking and fingerpicking styles. Arthel Lane (Doc) Watson was born March 3, 1923, in Deep Gap, North Carolina. His eyes became infected, and he lost his sight before his first birthday.

Doc's first instrument was the harmonica, which he started playing at the age of 5. When Watson was 19, he was performing on a radio show when someone in the audience shouted "Call him Doc" – a name that has stuck since then.

At the age of 24, Doc married Rosa Lee Carlton, with whom he had two children, Eddy Merle and Nancy Ellen. In 1953, he started playing lead electric guitar in Jack Williams' Country and Western Swing Band. In 1960, he was discovered as a solo artist. In 1964, after returning home from a concert tour, Doc found that Merle had taken up the guitar. Merle started recording and touring with him later that year at the Berkeley Folk Festival. For the next two decades Doc was the front man warming the crowd, singing all the vocals while Merle let his guitar sing harmony. Together they made 20 albums and won four Grammys including "Then and Now" in 1973 and "Two Days in November" in 1974.

A tractor accident took Merle's life in 1985, but Doc and Merle's music still is celebrated each year in Wilkes County through MerleFest which has become one of the most critically acclaimed acoustic music festivals in the world.

All total, Doc Watson has received seven Grammy awards (including the Lifetime Achievement Award), and was inducted into the International Bluegrass Music Hall of Fame in 2000.

(Sources: Wilkes Community College and MerleFest, and About.com: Folk Music)

NORTH CAROLINA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR
ENDED JUNE 30, 2009

BEVERLY E. PERDUE
GOVERNOR

DAVID T. MCCOY
STATE CONTROLLER

Prepared by Statewide Accounting Division
Office of the State Controller

http://www.osc.nc.gov

This report was prepared by the
Statewide Accounting Division of the North Carolina Office of the State Controller.

Anne Godwin, CPA
Deputy State Controller
Statewide Accounting Division
anne.godwin@osc.nc.gov

John Barfield, CPA
Accounting and Financial Reporting
Manager
john.barfield@osc.nc.gov

Amber Young
Central Compliance
Manager
amber.young@osc.nc.gov

Statewide Accounting Division Staff

Ann Anderson	**Cathy Johnson**	**Prabhavathi Vijayaraghavan, CPA**
Angela Clark	**Lauren Lemons**	**Cynthia Vincent**
John Eliadis	**Todd Lewis**	**Helen Vozzo, CPA**
Pam Fowler, CPA	**Clayton Murphy, CPA**	**Virginia Warren**
Luke Harris	**Terri Noblin, CPA**	
Martha Hunt, CPA	**Shirley Trollinger**	

Special appreciation is given to the chief fiscal officers and the dedicated accounting personnel throughout the State. Their efforts to contribute accurate and timely financial data for their agencies, universities, community colleges, and institutions made this report possible.

BEVERLY E. PERDUE
Governor of North Carolina

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INTRODUCTORY SECTION

State of North Carolina
Office of the State Controller

DAVID T. MCCOY
STATE CONTROLLER

The Honorable Beverly E. Perdue, Governor
Members of the North Carolina General Assembly
Citizens of North Carolina

It is our pleasure to furnish you with the 2009 Comprehensive Annual Financial Report (CAFR) of the State of North Carolina in compliance with G.S. 143B-426.40H. This report has been prepared by the Office of the State Controller. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the state government and this office. To the best of our knowledge and belief, this financial report is complete and reliable in all material respects. We believe all disclosures necessary to enable you to gain an understanding of the State's financial activities have been included.

Although the State budgets and manages its financial affairs on the cash basis of accounting, G.S. 143B-426.40H requires the Office of the State Controller to prepare a Comprehensive Annual Financial Report (CAFR) in accordance with generally accepted accounting principles (GAAP) in the United States of America. Except for schedules clearly labeled otherwise, this CAFR has been prepared in accordance with GAAP.

Management of the government is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the State are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of costs and benefits requires estimates and judgments by management.

In compliance with State law, an annual financial audit of the State financial reporting entity is completed each year by the North Carolina Office of the State Auditor. The Auditor's examination was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the Auditor's opinion has been included in this report. In addition, the State coordinates the *Single Audit* effort of all federal funds through the State Auditor.

This letter of transmittal is intended to complement the management discussion and analysis (MD&A) and should be read in conjunction with it. The MD&A provides an overview of the State's financial activities addressing both governmental and business-type activities reported in the government-wide financial statements. In addition, the MD&A focuses on the State's major funds: the General Fund, the Highway Fund, the Highway Trust Fund, the Unemployment Compensation Fund, the EPA Revolving Loan Fund and the N.C. State Lottery Fund. The MD&A can be found immediately following the Independent Auditor's Report.

MAILING ADDRESS: 1410 Mail Service Center, Raleigh, North Carolina 27699-1410
STREET ADDRESS: 3512 Bush Street, Raleigh, North Carolina 27609
Phone (919) 981-5454 ~ Fax (919) 981-5567
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Profile of the State of North Carolina

The Old North State, The Tar Heel State

North Carolina became the 12th state of the union in 1789. North Carolina is located on the Atlantic coast and is bordered by Georgia, South Carolina, Tennessee and Virginia. The State has a land area of approximately 50,000 square miles. The State's estimated population is 9.4 million, making it the 10th most populated state in the nation. Sixty percent of the population is found in urban areas, while forty percent is found in rural areas. The North Carolina coastline is 301 miles, the greatest distance east to west is 543 miles, and the greatest distance north to south is 188 miles. The State's elevation rises from sea level on the eastern coastline to 6,684 feet at Mount Mitchell in the Appalachian mountain range on our western border. There are 79,438 miles of roads, with Interstate 40 crossing North Carolina east to west, and Interstates 85 and 95 crossing the State north to south. North Carolina's capital and central state government administration is located in Raleigh, in the central piedmont. Charlotte, Raleigh, Greensboro, Durham, and Winston-Salem are North Carolina's largest cities and there are 100 counties.

Government

North Carolina's state government consists of an executive branch, a legislative branch, and a judicial branch. The executive branch is headed by the Governor. The Governor, Lieutenant Governor, and eight other statewide elected officers form the Council of State. The State Constitution provides that, "A Secretary of State, an Auditor, a Treasurer, a Superintendent of Public Instruction, an Attorney General, a Commissioner of Agriculture, a Commissioner of Labor, and a Commissioner of Insurance shall be elected by the qualified voters of the State...."

The legislative power of the State is vested in the General Assembly, which consists of a Senate and a House of Representatives. The Senate is composed of 50 Senators, elected on a biennial basis. The House of Representatives is composed of 120 Representatives, elected on a biennial basis.

The Courts of the Judicial Branch are split into three divisions, the Appellate Division, the Superior Court Division, and the District Court Division. Judges are elected on a non-partisan basis.

State Reporting Entity and Its Services

The State of North Carolina entity as reported in the CAFR includes all fund types of the departments, agencies, boards, commissions and authorities governed and legally controlled by the State's executive, legislative and judicial branches. In addition, the reporting entity includes legally separate component units for which the State is financially accountable. The component units are discretely presented in the government-wide financial statements. The State's discretely presented major component units are the University of North Carolina System, the State's community colleges, Golden LEAF, Inc., North Carolina Housing Finance Agency, and North Carolina State Education Assistance Authority. The criteria for inclusion in the reporting entity and its presentation are defined by the Governmental Accounting Standards Board (GASB) in its GASB Codification Section 2100. These criteria are described in Note 1 of the accompanying financial statements.

The State and its component units provide a broad range of services to its citizens, including k-12 public education; higher education; health and human services; economic development; environment and natural resources; public safety, corrections, and regulation; transportation; agriculture; and general government services. The costs of these services are reflected in detail and in summary in this report.

Budgetary Control

In addition to internal controls discussed previously, the State maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the General Assembly. Activities of the General Fund, departmental special revenue funds, and permanent funds are included in the annual appropriated budget. The State Highway Fund and the Highway Trust Fund, the State's major special revenue funds, are primarily budgeted on a multi-year basis. Capital projects are funded and planned in accordance with the time it will take to complete the project. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is exercised at both the departmental and university level, with allotment control exercised by the State Controller, and on the program line-item levels requiring certain approvals by the Director of the Budget. Legislative authorization of departmental expenditures appears in the State Appropriation Bill. The certified budget is the legal expenditure authority; however, the Office of State Budget and Management (OSBM) may approve executive changes to the legal budget as allowed by law. These changes result in the *final budget* presented in the required supplementary information.

Economic Condition

Overview

The state's economy was mired in a recession for all of Fiscal Year 2008-09. The recession, which began in December 2007, did not get underway in North Carolina until well after the start of the national recession. Typically, North Carolina is one of the first states to feel the impact of an economic slowdown. This time things were different and the state was one of the last to experience recession-like conditions. This occurred primarily because the economic downturn was driven by a housing market contraction, which was relatively mild in North Carolina. The recession intensified and became widespread, both nationally and in the state, with the financial market collapse in October 2008.

The financial market collapse was a global phenomenon creating fears of an economic contraction on parallel with the Great Depression of the 1930s. While this recession is not comparable to the Great Depression in terms of job losses and decline in economic output, it has been the longest post-World War II recession on record, at least 20 months, and arguably the most severe as well with employment losses over five percent (this compares with the Great Depression's job losses of over 30 percent). On average, recessions since World War II have lasted 10 months with job losses between one and two percent.

Because the housing recession was milder in the state, it was forecast that North Carolina like many other states would only experience a very mild recession. Starting in 2006, the nation began to experience a housing recession marked by significantly falling housing prices. Housing markets were weakened everywhere and in the state new and existing home sales began to falter. Nonetheless, a widespread economic recession seemed avoidable both in the state and the nation as a whole. While a weak economy was ahead of us, it was not expected to be a full-blown recession.

For North Carolina, it appeared job losses were going to be contained to housing related job sectors and some of the manufacturing sectors as national and global demand weakened. What was not widely anticipated at the start of 2008, was how the continuation of the housing recession would set-off a major, global financial crisis.

An international financial meltdown signaled by the collapse of the investment firm Lehman Brothers in September 2008 is what set the global economy reeling. The fall of this large investment firm was a clear indication that much of the international financial market was in trouble. The trouble was the result of an ever-growing housing recession that was now occurring worldwide. As mortgage defaults and foreclosures began to rise, many banks and financial institutions began to fail or come close to failure across the globe. In October of 2008, as a result of this financial market upheaval, an already weak economy was sent into a deep and prolonged recession. One of the reasons the recession stretched on for 20 months (or possibly more) is the structural corrections required from the intertwined housing and financial market debacle. These types of structural corrections can take a long time to fully unwind.

Since October of 2008, the state's economy has suffered significant job losses and a decline in wage and salary income. The state employed 200,000 fewer people at the end of the fiscal year than at the start and nearly 250,000 fewer since the start of the recession. Total wage and salary income fell from 3.6 percent quarterly growth to a 2 percent loss in income the second quarter of 2009. Both job losses and incomes are expected to decline for the rest of 2009 and a turnaround is not anticipated until mid-2010. The result of this economic malaise is a weakened economy and the prospects for only weak economic growth during the second half of 2009 and for much if not all of 2010.

National Economic Outlook

United States Economic Indicators

	FY2007-08 Actual	FY 2008-09 Actual	FY2009-10 Projected	FY2010-11 Projected
Economic Growth (GDP)*	2.2%	-2.2%	0.2%	2.6%
Personal Income	4.5%	-0.1%	-0.6%	3.5%
Corporate Pre-Tax Profits	6.3%	-22.7%	4.2%	2.9%
Retail Sales and Food Services	3.1%	-6.6%	-0.3%	4.7%
Consumer Price Index	3.7%	1.4%	0.7%	1.6%
30-yr Fixed Mortgage Interest Rate	6.2%	5.6%	5.6%	6.6%

*Adjusted for inflation

The national economic indicators convey the impact of the widespread recession the nation has had to endure over the last 12 months. Going forward, little growth is expected over the next two years and the projected recovery in the economy is not expected to be in full swing until 2011. The overall economy shrank in FY 2008-09 by 2.2 percent. The last quarter of 2008 and the first quarter of 2009 were the hardest hit by the recession, which has persisted for over 6 quarters (20 months). As noted, little economic growth is expected in the next fiscal year as a very slow recovery unfolds and only 2.6 percent growth is expected the following year. Long-term average growth is 3 percent.

With the economic slowdown and significant loss in employment, total personal income fell by 0.1 percent in FY2008-09. Employment losses are expected to mount until mid-2010 pushing personal income even lower by an additional 0.6 percent in FY 2009-10. The projected lower than average economic growth during the early part of the recovery will mean improvements in income and employment are going to take a longer time to develop.

Additionally, given the projection for a slow recovery, business profitability is not expected to rise significantly over the next couple of years. Many businesses going into this recession were expected to see profits fall, but the impact was not expected to be widespread. With the financial market collapse and the onset of a prolonged global recession, profits tumbled 22.7 percent. Falling demand caused by the global economic downturn set the stage for business profits to fall, and with the prospect of a slow-building recovery, a robust business climate may still be a year or two away.

A good indicator on the health of the economy is retail sales. This key indicator experienced a sizable decline beginning the last quarter of 2008. The fall-off in retail sales persisted throughout the fiscal year and is not expected to rebound until the second-half of 2010. Consumers have been hit hard during this recession as housing wealth declined, credit markets tightened, real wages fell, and the employment picture darkened. The key to a rebound in consumer spending will be stabilized real estate and financial markets, and an improving employment picture.

To summarize, the housing recession that began in 2006 grew much worse in 2007 and set-off a major upheaval in worldwide financial markets. The result was a severe recession that has persisted for at least 20 months (the official word on the end of the recession may be many months away). The anticipated slow recovery means economic conditions marked by high unemployment and lower consumer spending will persist for all of 2009 and into 2010. A robust economy is not anticipated until 2011.

North Carolina Economic Outlook

North Carolina Economic Indicators

	FY2007-08 Actual	FY2008-09 Actual	FY2009-10 Projected	FY2010-11 Projected
Personal Income	5.5%	2.2%	1.1%	1.6%
Wages & Salaries	4.6%	0.6%	0.1%	1.6%
Retail Sales	4.5%	-7.2%	-1.8%	3.5%
Unemployment Rate	5.2%	8.9%	11.5%	9.1%
Employment (Nonagricultural)	1.4%	-3.0%	-3.3%	0.6%
Existing Single-family Home Sales	-20.9%	-30.6%	15.4%	9.3%
Average Hourly Earnings: Manufacturing	2.9%	2.8%	2.6%	1.9%

For North Carolina, as with the nation, the recession intensified in the fourth quarter of 2008. Prior to then, it appeared the state might weather the economic turmoil experienced by some states and avoid widespread recession-like conditions. The initial mild slowdown experienced by the state was due in part to North Carolina's relatively mild housing problems. The state's worst housing problems were mostly limited to the resort areas of the state. Through most of 2008, the state experienced only a mild reduction in employment and personal income was still increasing. However, after the financial market crisis, employment losses accelerated and the state was dealing with a double-digit unemployment rate.

Thus, for FY 2008-09, state economic indicators such as employment and income growth reflect the intensifying recession spreading across the state. Personal income dropped to 2.2 percent growth after several years of 6 to 7 percent growth. Wage & salary income plummeted to only 0.6 percent growth for the year. The fall in wage & salary income was consistent with employment losses the state began to experience. Going forward, little or no growth in income is projected well into the next fiscal year as unemployment hovers near the double-digit range. A slight rebound in wage & salary growth is forecast for 2011, but it will remain well below long-term growth levels.

As with the nation, the worst of the recession's effects will be behind us by the end of 2009. Nevertheless, residual employment problems will continue to be a drain on the state's economy as evidenced by weak consumer demand. In FY 2009-10, it is anticipated that a decline in retail sales of 1.8 percent will occur. This decline will come on top of the significant decline in FY 2008-09, of 7.2 percent.

As the state's economy begins to turn the corner in the recovery, employment prospects are expected to rebound in 2010, but a robust employment scenario is not projected until 2011. This past year's drop in employment occurred in all major industry sectors except for health and educational services. For 2010, most industries are expected to experience some positive growth; however, most of the growth occurs the second-half of the year. The long-term negative growth trends in manufacturing are expected to continue.

In the last recession, manufacturing, particularly in the furniture and textile industries, shed jobs at a rate of 10 percent per quarter. The state's manufacturing sector again was vulnerable to the recession and job losses in this industry sector reached double-digit levels. Another hard hit industry has been the financial sector. The financial market upheaval has had a detrimental impact on this sector's employment. Current estimates indicate job losses in financial activities will continue throughout 2010 and for most of 2011. Thus, the total number of people employed in nonagricultural industries in the state is expected to decline in FY 2009-10, and the following fiscal year only grow at a rate of 0.6 percent. This compares with 1.4 percent growth in FY 2007-08.

The housing recession is clearly indicated by the 20.9 percent decline of existing-home sales in FY 2007-08, and 30.6 percent decline in FY 2008-09. The housing recession and subsequent adjustments in the real estate market have taken a long time to unwind. A projected turnaround in residential markets is expected in 2010 as market corrections take hold. The anticipated low mortgage interest rates will help with the recovery and eventually there will be a return to a stable housing sector.

The length and severity of the recession is largely due to the structural imbalances in the housing and financial sectors. These imbalances, which have had a profound affect on the state's economy, have taken a long time to correct. Once the economic recovery is on solid footing, North Carolina's economy is expected to expand at a faster pace than the nation. This should bode well for overall employment in the state and help bolster income growth going into 2011. Until then, the state is expected to experience high unemployment and weak consumer spending. Employment losses in the manufacturing and financial industries are expected until 2011. Growth in other industries, especially service and tech industries, should rebound sooner and will provide a stimulus for future economic growth.

— Economic analysis prepared by Barry Boardman, Ph.D., Staff Economist
North Carolina General Assembly, Fiscal Research Division
October 30, 2009

Issues and Observations

BEACON

BEACON (Building Enterprise Access for NC's Core Operational Needs), North Carolina's human resources and payroll enterprise resource planning (ERP) system supported by the Office of the State Controller, is a statewide collaborative effort aimed at effectively enhancing the way we do business in North Carolina by modernizing and standardizing business processes in human resources, payroll, budget management, taxation, data storage and accounting. In the second half of fiscal year 2007-2008, after five years in planning and development, the State successfully upgraded its antiquated business systems framework by replacing the human resource and payroll system with SAP's industry recognized state-of-the-art ERP software solution. Delivered under budget and on time, the system pays in excess of 90,000 State employees each month applying consistent and standardized Office of State Personnel HR and payroll policies among all State agencies.

The HR/Payroll system uses an industry recognized technology framework that ties copious agency information and data together in a single network. The software also allows for future business operations to be added to the central system framework and provides a uniform tool for the integration of data, whether HR/Payroll or data relating to future modules such as budgeting, accounting, learning management, recruiting or grants management that may be implemented. The ERP system provides a secure, reliable and fully integrated tool and framework to consistently support state agencies in daily operations, business decision-making processes, detailed reporting and future planning needs.

Session Law 2007-323 directed the Office of the State Controller, in cooperation with the State Chief Information Officer, to develop a Strategic Implementation Plan for the integration of data bases and the sharing of information among state agencies and programs, under the governance of the BEACON Project Steering Committee, in conjunction with the leadership in the state agencies and with the support of the Office of State Budget and Management. The plan defines data integration as the capability of merging and reconciling dispersed data for analytical purposes through the use of standardized tools to support quick, agile, event-driven analysis for business and recommended the establishment of an environment where agencies and programs partner to develop business solutions which are enabled by technology.

Subsequent to the initial data integration legislation, SL 2008-107 directed the Office of the State Controller, in cooperation with the State Chief Information Officer and under the governance of the BEACON Program Steering Committee, to develop and implement a Criminal Justice Data Integration Pilot Program in Wake County. The objective of the pilot program is to provide law enforcement professionals with enhanced decision-making ability through access to a secure network that offers timely, complete and accurate criminal information. The initial release of the Criminal Justice Law Enforcement Automated Data Services (CJLEADS) pilot application was provided to the project team for a period of Quality Assurance and user testing. Design and development of the pilot is on-going as criminal justice data sources continue to be incorporated in to the application. Senate Bill 202 Session Law 2009-451 (Appendix C) directs the OSC to develop full operational capability of the Criminal Justice Law Enforcement Automated Data Services (CJLEADS) application in Wake County in fiscal year 2009 – 2010.

Other Post-Employment Benefits: Retiree Healthcare

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (effective for fiscal year 2006-07), and in June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (effective for fiscal year 2007-08).

The actuarial data for the retiree healthcare benefit plan is disclosed in Note 13, Other Postemployment Benefits, based on the disclosure requirements for a cost-sharing, multiple-employer plan, and is also presented as required supplementary information (RSI). Based on the disclosure requirements of a cost-sharing, multiple-employer plan, the unfunded actuarial liability is not recorded as an accounting liability.

The State retiree healthcare benefit is currently funded on a pay-as-you-go basis, with minimal additional accumulation of funds to pay the retiree health benefit. Based on the current funding method with limited accumulation of funds, the actuarial assumptions reflect a short-term discount rate of 4.25%. The December 31, 2008 actuarial valuation using the projected unit credit cost method indicated an accrued liability of $28.288 billion for the retiree healthcare plan ($27.854 billion unfunded), with an annual required contribution (ARC) of $2.674 billion.

Participating employers in the retiree health care benefit plan include the primary government state employees, local education agencies (LEAs), the University of North Carolina, community colleges, and several local governments. For the fiscal year ended June 30, 2009, retiree healthcare employer contributions were $635.685 million, representing an annual increase of 5.77%. Retiree healthcare premium costs paid to the State Health Plan were $510.622 million, representing an annual decrease of 2.42%. Plan net assets of $500.244 million represent an increase of $138.72 million, or 38.37% from the prior year.

North Carolina Turnpike Authority

The 2002 General Assembly created the North Carolina Turnpike Authority. In doing so, the General Assembly found that the existing State road system was becoming increasingly congested and overburdened with heavy traffic in many areas of the State; that the sharp surge of vehicle miles traveled was overwhelming the State's ability to build and pay for adequate road improvements; and that an adequate answer to this challenge would require the State to be innovative and utilize several new approaches to transportation improvements in North Carolina. They concluded that toll funding of highway and bridge construction was feasible in North Carolina and that such an approach would contribute to addressing critical transportation needs by speeding the implementation of needed transportation improvements.

The Turnpike Authority operates as a separate business unit of the North Carolina Department of Transportation (NCDOT), the North Carolina Turnpike Authority is authorized to study, plan, develop and undertake preliminary design work on up to nine toll roads in the state.

The Turnpike Authority currently is authorized to design, establish, purchase, construct, operate, and maintain the following projects:

Triangle Expressway
Monroe Connector/Bypass
Mid-Currituck Bridge
Garden Parkway
Cape Fear Skyway

Local officials may request that the Turnpike Authority consider any planned road or bridge project for development as a toll road. Potential toll projects would generally involve high traffic areas where new roads or bridges would significantly reduce congestion.

State Governmental Accountability and Internal Control Act

The purpose of the *State Governmental Accountability and Internal Control Act* is to establish internal control standards for State government and to increase fiscal accountability. Recognizing the public interest and the importance of oversight over public institutions, the Governor and General Assembly adopted legislation that provides for the implementation of an effective and efficient system of internal control providing reasonable assurance that the public's objectives are met. Moving forward, the *State Governmental Accountability and Internal Control Act* will ensure that our State system of internal control incorporates applicable statewide standards and clearly defines and assigns specific internal control related responsibilities.

The State Governmental Accountability and Internal Control Act (North Carolina General Statutes, Chapter 143D) passed during the 2007 session of the General Assembly, is intended to meet the public's increasing expectations for effective operations and accountability within state government and to provide an opportunity for North Carolina to leverage on the best practices that have recently been implemented in the private sector.

Currently each agency is required to perform an annual assessment of internal control over financial reporting. By performing these assessments, agencies are able to identify risks and compensating controls that reduce the possibility of material misstatements and misappropriation of assets. Opportunities to increase efficiency and control effectiveness in business processes and operations also result from these assessments.

The State's internal control initiative, also known as EAGLE (*Enhancing Accountability in Government through Leadership and Education*), has generated national interest and should further solidify North Carolina's status as a leader in governmental accountability and fiscal management.

North Carolina Internal Audit Act

The North Carolina General Assembly enacted the Internal Audit Act in Chapter 143 of the North Carolina General Statutes. The purpose of the Act is to promote effective use of internal audit efforts throughout the State. The Act requires State agencies and universities to establish a program of internal auditing; establishes the Council of Internal Auditing; and directs the Office of State Budget and Management (OSBM) to serve as staff and support to the Council. The Act applies to State agencies and universities that have an annual operating budget exceeding $10 million; more than 100 full-time equivalent employees; or receive and process more than $10 million in cash in a fiscal year.

State agencies and universities meeting the Internal Audit Act participation requirements are directed to establish a program of internal auditing that promotes an effective system of internal controls, safeguards public funds and assets, and minimizes incidences of fraud, waste, and abuse. Internal auditing programs review the effectiveness and efficiency of agency and program operations and service delivery.

The Council of Internal Auditing plays a significant role in the implementation of the North Carolina Internal Audit Act. The Council consists of the State Controller, who serves as Chair, the State Budget Officer, the Secretary of Administration, the Attorney General, the Secretary of Revenue, and the State Auditor who serves as a nonvoting member. The Council of Internal Auditing works to:

- Develop guidelines for the uniformity and quality of state agency internal audit activities
- Administer an independent peer review system
- Recommend the number of internal audit employees required by each state agency
- Provide central training sessions, professional development opportunities, and recognition programs for internal auditors
- Administer a program for sharing internal auditors
- Maintain a central database of all internal audit plans and reports
- Issue an annual report including, but not limited to, service efforts and accomplishments of State agency internal auditors
- Propose legislation for consideration by the Governor and General Assembly

To support the Council, OSBM established the Office of Internal Audit (OIA) to assist in carrying out Council's responsibilities. The staff develops yearly objectives based on the legislative mandates and reports the progress of the objectives at each Council meeting.

Please see http://www.osbm.state.nc.us/ncosbm/management/internal_audits.shtm for additional information.

American Recovery and Reinvestment Act of 2009

The American Recovery and Reinvestment Act of 2009 (ARRA), is an economic stimulus package enacted by the 111th United States Congress in February 2009. ARRA was intended to provide a stimulus to the U.S. economy in the wake of the economic downturn. The measures are nominally worth $787 billion. The Act includes federal tax cuts, expansion of unemployment benefits and other social welfare provisions, and domestic spending in education, health care, and infrastructure, including the energy sector. The government action is much larger than the Economic Stimulus Act of 2008, which consisted primarily of tax rebate checks.

The Office of the Treasury estimates that $62.5 billion in tax relief was made available across the nation by the end of the August 2009. This relief comes in various forms including the Making Work Pay tax credit, COBRA Continuation Coverage Assistance, and tax incentives for businesses. Please see http://www.recovery.gov/ for additional information.

North Carolina Office of Economic Recovery and Investment

On February 17, 2009, the Governor announced the creation of the North Carolina Office of Economic Recovery and Investment. To ensure transparency, accountability and efficiency the office will coordinate and track North Carolina's handling of federal stimulus funds as well as state-level economic recovery initiatives.

The Economic Recovery and Investment Office will:

- Track all federal dollars flowing into state and local governments as well as to private businesses and non-profit organizations.
- Maximize the state's use of available federal stimulus funds.
- Identify the most rapid ways to move the stimulus money into the economy and remove regulatory and other impediments.
- Establish open and effective lines of communication with federal and state agencies, local governments and North Carolina's Congressional delegation to assist in efforts to effectively and rapidly use the federal stimulus funds.

- Develop a communications network, using a variety of tools including the Internet, to keep the public informed about the status and progress of the recovery effort, along with funding opportunities.
- Report to the General Assembly and the citizens on a regular basis about the status of the use of the stimulus funds, including federal, state and other non-federal money.
- Measure progress of the recovery effort by tracking the state's economic condition.

Please see http://ncrecovery.gov/ for additional information.

NC OpenBook

NC OpenBook is part of the effort to bring additional transparency and accountability to state government in North Carolina. NC OpenBook is based on the concept that access to information online should be the basic standard, because North Carolina citizens have a right to know how their government is operating.

NC OpenBook currently includes a searchable database of approximately 2,500 state contracts and over 5,000 grant disbursements. The Office of State Budget and Management is working with state agencies and departments to streamline their contract databases and a complete searchable database will be available later this year.

In addition to state contracts and grants, NCOpenBook.gov will feature detailed information about state agency performance measures and is linked to North Carolina's economic recovery efforts. Please see http://www.ncopenbook.gov/ for additional information.

Economic Development

Across the United States and around the world, officials are announcing huge investments to create bioscience clusters. Initiatives are totaling hundreds of millions of dollars, even a billion or more, at a time. North Carolina started building its foundation 25 years ago when it established the North Carolina Biotechnology Center. Our state has devoted more than $1.2 billion to the biosciences in just the past 10 years.

We've invested steadily across the state—in biotechnology education and workforce training, university research and its commercialization, entrepreneurial endeavors and biomanufacturing. And now we're home to 500 bioscience companies employing more than 54,000 people.

During the past decade North Carolina has committed:

- $857 million into research and facilities—from translational research and individualized medicine to nanotechnology, cancer research and biofuels;
- $135 million toward workforce training—building on the North Carolina Community Colleges' statewide biotechnology education programs through BioNetwork and other training at community colleges, and the BTEC and BRITE facilities on the North Carolina State University and North Carolina Central University campuses;
- $115 million via the North Carolina Biotechnology Center—building the partnerships and infrastructure to make North Carolina the envy of the world;
- $102 million in direct company incentives—$95 million in Job Development Investment Grants (JDIGs) and $7 million in One North Carolina funding, primarily in pharmaceutical manufacturing.

Please see http://www.ncbiotech.org/billion/ for additional information.

Debt Affordability

The 2004 General Assembly passed legislation creating the Debt Affordability Advisory Committee. The Committee is charged, on an annual basis, with advising the Governor and the General Assembly of the estimated debt capacity of the State for the upcoming 10 fiscal years.

The Committee produces the *Debt Affordability Study* on an annual basis. The report was created to serve as a tool for sound debt management practices by the State of North Carolina. The report provides the Governor and the General Assembly with a basis for assessing the impact of future debt issuance on the State's fiscal position and enables informed decision-making regarding both financing proposals and capital spending priorities. The report also provides a methodology for measuring, monitoring and managing the State's debt levels. The concept of debt affordability is widely regarded as an essential management tool. The methodology used in the study to analyze the State's debt position incorporates historical and future trends in debt levels, peer group comparisons and provides recommendations within adopted guidelines. The study also provides recommendations regarding other debt management related policies considered desirable and consistent with the sound management of the State's debt. Such recommendations were developed by incorporating management practices consistent with those utilized by the most highly rated states.

Awards and Acknowledgements

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of North Carolina for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2008. This was the 15th consecutive year (1994 to 2008) the State has received the prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. The CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA.

Acknowledgments

In conclusion, we believe this report provides useful data to all parties using it in evaluating the financial activity of the State of North Carolina. We in the Office of the State Controller express our appreciation to the financial officers throughout the State and to the Office of the State Auditor for their dedicated efforts in assisting us in the preparation of this report. Any questions concerning the information contained in this report should be directed to the Office of the State Controller at (919) 981-5454.

Respectfully submitted,

David T. McCoy

David T. McCoy
State Controller

December 8, 2009

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CERTIFICATE OF ACHIEVEMENT

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of North Carolina

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2008

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

ORGANIZATION OF NORTH CAROLINA STATE GOVERNMENT INCLUDING PRINCIPAL STATE OFFICIALS

EXECUTIVE BRANCH

Council of State

Governor
Beverly E. Perdue

Lieutenant Governor
Walter Dalton

Secretary of State
Elaine F. Marshall

State Auditor
Beth Wood

State Treasurer
Janet Cowell

Superintendent of Public Instruction
Dr. June St. Clair Atkinson

Attorney General
Roy A. Cooper, III

Commissioner of Agriculture
Steven W. Troxler

Commissioner of Labor
Cherie K. Berry

Commissioner of Insurance
Wayne Goodwin

Cabinet Secretaries — Appointed by the Governor

Administration
W. Britt Cobb, Jr.

Correction
Alvin Keller, Jr.

Crime Control and Public Safety
Reuben F. Young

Cultural Resources
Linda A. Carlisle

Commerce
J. Keith Crisco

Environment & Natural Resources
Dee Freeman

Health and Human Services
Lanier M. Cansler

Juvenile Justice and Delinquency Prevention
Linda W. Hayes

Revenue
Kenneth R. Lay

Transportation
Eugene A. Conti, Jr.

Appointed by Governor, confirmed by Legislature

Office of the State Controller
David T. McCoy
State Controller

State Board of Education
William C. Harrison
Chairman

Appointed by State Board of Community Colleges

Dr. R. Scott Ralls
President

Appointed by University Board of Governors

Erskine B. Bowles
President

LEGISLATIVE BRANCH

General Assembly

Senate

President
Lieutenant Governor
Walter Dalton

President Pro Tempore
Marc Basnight

Deputy Pres. Pro Tempore
Charlie Smith Dannelly

Majority Leader
Anthony E. Rand

Minority Leader
Philip E. Berger

House of Representatives

Speaker
Joe Hackney

Speaker Pro Tempore
William L. Wainwright

Majority Leader
L. Hugh Holliman

Minority Leader
Paul Stam

JUDICIAL BRANCH

North Carolina Supreme Court

Chief Justice
Sarah Parker

Associate Justices
Edward Thomas Brady
Robert H. Edmunds, Jr.
Paul M. Newby
Mark D. Martin
Patricia Timmons-Goodson
Robin E. Hudson

Administrative
Office of the Courts
Judge John W. Smith, II
Director

Component Units

- *University of North Carolina System*
- *The Golden LEAF, Inc.*
- *N.C. Housing Finance Agency*
- *Community Colleges*
- *State Education Assistance Authority*
- *Other Component Units*

State of North Carolina Web Page
http://www.ncgov.com

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FINANCIAL SECTION

STATE OF NORTH CAROLINA

Office of the State Auditor

Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet http://www.ncauditor.net

INDEPENDENT AUDITOR'S REPORT

The Honorable Beverly E. Perdue, Governor
The General Assembly of North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of North Carolina, as of and for the year ended June 30, 2009, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of North Carolina's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the following:

- The financial statements of the North Carolina State Lottery Fund, which is a major enterprise fund and represents 3 percent, 0 percent, and 36 percent, respectively, of the assets, net assets, and revenues of the business-type activities.
- The financial statements of the North Carolina Housing Finance Agency, which represent 7 percent, 3 percent, and 3 percent, respectively, of the assets, net assets, and revenues of the aggregate discretely presented component units.
- The financial statements of the State Education Assistance Authority, which represent 18 percent, 4 percent, and 4 percent, respectively, of the assets, net assets, and revenues of the aggregate discretely presented component units.
- The financial statements of the University of North Carolina System – University of North Carolina Health Care System – Rex Healthcare, which represent 2 percent, 2 percent, and 5 percent, respectively, of the assets, net assets, and revenues of the aggregate discretely presented component units.
- The financial statements of the Supplemental Retirement Income Plan of North Carolina, which represent 5 percent, 5 percent, and 4 percent, respectively, of the assets, net assets, and revenues of the aggregate remaining fund information.

The financial statements listed above were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to these amounts, are based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the State Education Assistance Authority, the University of North Carolina System – University of North Carolina Health Care System – Rex Healthcare, and the Supplemental Retirement Income Plan of North Carolina were not audited in accordance with *Government Audit Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of North Carolina, as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 22 to the financial statements, the State changed its method of accounting for inventories and implemented Governmental Accounting Standards Board Statement No. 49 - *Accounting and Financial Reporting for Pollution Remediation Obligations* and Statement No. 52 - *Land and Other Real Estate Held as Investments by Endowments* during the year ended June 30, 2009.

In accordance with *Government Auditing Standards*, we will also issue our report dated December 8, 2009 on our consideration of the State of North Carolina's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit. The report on internal control and on compliance and other matters will be published at a later date in the State of North Carolina's *Single Audit Report.*

The management's discussion and analysis and required supplementary information, as listed in the table of contents, are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of North Carolina's basic financial statements. The introductory section, the combining fund financial statements and schedules, and the statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

December 8, 2009

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MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

The following is a narrative overview and analysis of the State of North Carolina's (the State) financial performance for the fiscal year ended June 30, 2009. Please read it in conjunction with the transmittal letter at the front of this report and with the State's financial statements, which follow this section.

Financial Highlights

Government-wide Financial Statements:

— The State's total net assets decreased by $2.265 billion or 7.1% as a result of this year's operations. Net assets of governmental activities decreased by $1.2 billion, or 4%, due to the unprecedented declines in tax revenues. Net assets of business-type activities decreased by $1.065 billion, or 56.15%, due to a substantial operating loss in the Unemployment Compensation Fund. At year-end, net assets of governmental activities and business-type activities totaled $28.806 billion and $831.605 million, respectively.

— Component units reported net assets of $16.417 billion, a decrease of $412.655 million or 2.45% from the previous year. The majority of the net asset decrease is attributable to the University of North Carolina System, a major component unit.

Fund Financial Statements:

— The fund balance of the General Fund decreased from $1.678 billion at June 30, 2008 (as restated) to negative $775.864 million at June 30, 2009. The State appropriated most of the beginning unreserved fund balance, appropriated $1.155 billion of federal recovery funds, reduced expenditures, and transferred amounts from other funds to finance a revenue shortfall of $2.983 billion.

— The fund balance of the State Highway Fund increased from $975.885 million at June 30, 2008 (as restated) to $1.021 billion at June 30, 2009, an increase of 4.65%. The fund balance growth, which was attributable to increases in federal funds, was partly offset by decreases in gasoline taxes and motor vehicle fees.

— The fund balance of the Highway Trust Fund decreased from negative $158.753 million at June 30, 2008 (as restated) to negative $169.629 million at June 30, 2009, a decrease of 6.85%. Decreases in highway use taxes, gasoline taxes, and motor vehicle fees contributed to the larger fund deficit.

— The net assets of the Unemployment Compensation Fund decreased from $847.69 million at June 30, 2008 to negative $298.761 million at June 30, 2009. The decrease is directly related to the rise in North Carolina's seasonally adjusted unemployment rate from 6.1% in June 2008 to 11% in June 2009.

— Net ticket sales of the N.C. State Lottery Fund (Lottery) increased 22.4% from the previous fiscal year, surpassing $1 billion for the second straight year. As required by law, the Lottery's net profit of $413.929 million was transferred to the Education Lottery Fund (nonmajor special revenue fund) to support educational programs.

Capital Assets:

— The State's investment in capital assets (net of accumulated depreciation) was $34.314 billion, an increase of 4.91% from the previous fiscal year-end.

— This year's major capital asset additions were for highway construction ($1.3 billion), highway land improvements ($477 million), construction of correctional facilities ($51 million), and construction of youth development centers ($34 million).

Long-term Debt:

— The State had total long-term debt outstanding (general obligation bonds, special indebtedness, and GARVEE bonds, adjusted for deferred amounts) of $7.368 billion, an increase of 1.87% from the previous fiscal year-end. The State issued $600 million of limited obligation bonds to finance various State and university capital projects.

— North Carolina remains one of only seven states to enjoy top-tier rankings (i.e., AAA) from all three credit rating agencies.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is an introduction to the State's basic financial statements, which comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains additional required supplementary information (General Fund budgetary schedule, pension and other postemployment benefits funding progress and contributions) and other supplementary information (combining financial statements) in addition to the basic financial statements. These components are described below.

Government-wide Financial Statements

The Statement of Net Assets and the Statement of Activities are two financial statements that report information about the State, as a whole, and about its activities that should help answer this question: Is the State, as a whole, better off or worse off as a result of this year's activities? These statements include all non-fiduciary assets and liabilities using the accrual basis of accounting. The current year's revenues and expenses are taken into account regardless of when cash is received or paid. The Statement of Net Assets (page 54) presents all of the State's assets and liabilities, with the difference between the two reported as "net assets." Over time, increases and decreases in net assets measure whether the State's financial position is improving or deteriorating.

The Statement of Activities (pages 56 and 57) presents information showing how the State's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying events giving rise to the change occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

Both statements report three activities:
<u>Governmental Activities</u> – Most of the State's basic services are reported under this category. Taxes and intergovernmental revenues generally fund these services.

<u>*Business-type Activities*</u> – The State charges fees to customers to help it cover all or most of the cost of certain services it provides. The State's Unemployment Compensation Fund, the N.C. State Lottery Fund, and the EPA Revolving Loan Fund are the predominant business-type activities.

<u>*Discretely Presented Component Units*</u> – Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. A description of the component units and an address for obtaining their separately issued financial statements can be found beginning on page 76. All component units are combined and displayed in a separate discrete column in the government-wide financial statements to emphasize their legal separateness from the State. In addition, financial statements for major component units are presented in the notes to the financial statements (pages 165 and 166).

Fund Financial Statements

The fund financial statements provide more detailed information about the State's most significant funds (i.e., major funds) – not the State as a whole. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the State uses to keep track of specific sources of funding and spending for particular purposes. In addition to the major funds, page 192 begins the individual fund data for the nonmajor funds. The State's funds are divided into three categories, governmental, proprietary, and fiduciary, and they use different accounting approaches.

Governmental funds -- Most of the State's basic services are reported in the governmental funds, which focus on how cash and other financial assets that can readily be converted to cash flow in and out (i.e., inflows and outflows of spendable resources) and the balances left at year-end that are available for spending (i.e., balances of spendable resources). Consequently, the governmental fund financial statements provide a detailed short-term view that helps users determine whether there are more or fewer financial resources that can be spent in the near future to finance the State's programs. The State prepares the governmental fund financial statements using the modified accrual basis of accounting and a current financial resources measurement focus. Because this information does not encompass the additional long-term focus of the government-wide statements, a reconciliation schedule, which follows each of the governmental fund financial statements, explains the relationships (or differences) between them. Information is presented separately in the governmental fund financial statements for the General Fund, the Highway Fund, and the Highway Trust Fund, all of which are considered to be major funds. Data for all other governmental funds are combined into a single aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

Proprietary funds -- When the State charges customers for the services it provides, whether to outside customers or to agencies within the State, these services are generally reported in proprietary funds. Proprietary funds (enterprise and internal service) utilize accrual accounting; the same method used by private sector businesses. Enterprise funds are used to report activities for which fees are charged to external users for goods and services. The Unemployment Compensation Fund, the N.C. State Lottery Fund, and the EPA Revolving Loan Fund are our most significant enterprise funds. Internal service funds are used to report activities that provide goods and services to the State's other programs and activities on a cost-reimbursement basis, such as the State Property Fire Insurance Fund, the Motor Fleet Management Fund, Computing Services Fund, and the State Telecommunications Services Fund. Because the State's internal service funds predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. Information is presented separately in the proprietary fund financial statements for the Unemployment Compensation Fund, the N.C. State Lottery Fund, and the EPA Revolving Loan Fund, all of which are considered to be major funds. Conversely, separately aggregated columns are presented for the nonmajor enterprise funds and the internal service funds. Individual fund data for the nonmajor enterprise funds and internal service funds is provided in the form of combining statements elsewhere in this report.

Fiduciary funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the State's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The State's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. These funds include pension and other employee benefit trust funds, private-purpose trust funds, investment trust funds, and agency funds.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 74 of this report.

Required Supplementary Information

Required Supplementary Information (RSI) follows the basic financial statements and notes to the financial statements. The RSI is mandated by the GASB and includes General Fund budgetary comparison schedules reconciling the statutory to the generally accepted accounting principles fund balances at fiscal year-end, and pension plan and other postemployment benefits trend information related to funding progress and contributions.

Other Supplementary Information

Other supplementary information includes the introductory section, the combining financial statements for nonmajor governmental funds, nonmajor enterprise funds, internal service funds, fiduciary funds, nonmajor discretely presented component units, and the statistical section.

FINANCIAL ANALYSIS OF THE STATE AS A WHOLE

Over time, increases or decreases in net assets serve as a useful indicator of whether a government's financial position is improving or deteriorating. The State's combined net assets decreased $2.265 billion or 7.1% over the course of this fiscal year's operations. The net assets of the governmental activities decreased $1.2 billion or 4% and business-type activities decreased $1.065 billion or 56.15%. The following table was derived from the government-wide Statement of Net Assets:

Net Assets
June 30, 2009 and 2008
(dollars in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2009	2008	2009	2008	2009	2008
Current and other non-current assets	$ 10,048,969	$ 15,223,629	$ 1,829,597	$ 2,252,278	$ 11,878,566	$ 17,475,907
Capital assets, net	34,283,111	32,675,405	30,612	32,063	34,313,723	32,707,468
Total assets	44,332,080	47,899,034	1,860,209	2,284,341	46,192,289	50,183,375
Long-term liabilities	8,691,184	8,578,101	5,441	4,682	8,696,625	8,582,783
Other liabilities	6,835,004	9,314,580	1,023,163	383,359	7,858,167	9,697,939
Total liabilities	15,526,188	17,892,681	1,028,604	388,041	16,554,792	18,280,722
Net assets:						
Invested in capital assets, net of related debt	32,348,957	30,984,578	30,612	32,063	32,379,569	31,016,641
Restricted	715,546	877,915	1,003,613	1,773,018	1,719,159	2,650,933
Unrestricted	(4,258,611)	(1,856,140)	(202,620)	91,219	(4,461,231)	(1,764,921)
Total net assets	$ 28,805,892	$ 30,006,353	$ 831,605	$ 1,896,300	$ 29,637,497	$ 31,902,653

The largest component of the State's net assets ($32.38 billion) reflects its investment in capital assets (land, buildings, machinery and equipment, state highway system, and other capital assets), less related debt still outstanding that was used to acquire or construct those assets. Restricted net assets are the next largest component ($1.719 billion). Net assets are restricted when constraints placed on their use are 1) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or 2) legally imposed through constitutional provisions. The remaining portion, unrestricted net assets, consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

The government-wide statement of net assets for governmental activities reflects a negative $4.259 billion unrestricted net asset balance. The State of North Carolina, like many other state and local governments, issues general obligation debt and special indebtedness and distributes the proceeds to local governments and component units. The proceeds are used to construct new buildings and renovate and modernize existing buildings on the State's community college and university campuses, assist county governments in meeting their public school building capital needs, and to provide grants and loans to local governments for clean water and natural gas projects. Of the $7.368 billion of bonds and special indebtedness outstanding at June 30, 2009, $5.319 billion is attributable to debt issued as state aid to component units (universities and community colleges) and local governments. The balance sheets of component unit and local government recipients reflect ownership of the related constructed capital assets without the burden of recording the debt obligation. The policy of selling general obligation bonds and funneling the cash proceeds to non-primary government (non-State) entities has been in place for decades. However, by issuing such debt, the State is left to reflect significant liabilities on its statement of net assets (reflected in the unrestricted net asset component) without the benefit of recording the capital assets constructed or acquired with the proceeds from the debt issuances. Additionally, as of June 30, 2009, the State's governmental activities have significant unfunded liabilities for a court judgment payable of $731.703 million and compensated absences of $424.281 million (see Note 7 to the financial statements). These unfunded liabilities also contribute to the negative unrestricted net asset balance for governmental activities.

The following financial information was derived from the government-wide Statement of Activities and reflects how the State's net assets changed during the fiscal year:

Changes in Net Assets
For the Fiscal Years Ended June 30, 2009 and 2008
(dollars in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2009	2008	2009	2008	2009	2008
Revenues:						
Program revenues:						
Charges for services	$ 2,137,273	$ 2,181,235	$ 2,452,021	$ 2,237,965	$ 4,589,294	$ 4,419,200
Operating grants and contributions	14,123,077	12,301,356	1,120,736	83,695	15,243,813	12,385,051
Capital grants and contributions	1,035,742	826,646	125	6,589	1,035,867	833,235
General revenues:						
Taxes						
Individual income tax	8,661,565	10,676,156	—	—	8,661,565	10,676,156
Corporate income tax	997,206	1,357,670	—	—	997,206	1,357,670
Sales and use tax	4,911,656	5,159,453	—	—	4,911,656	5,159,453
Gasoline tax	1,523,496	1,579,847	—	—	1,523,496	1,579,847
Franchise tax	799,113	738,741	—	—	799,113	738,741
Highway use tax	440,749	566,132	—	—	440,749	566,132
Insurance tax	500,438	505,936	—	—	500,438	505,936
Beverage tax	263,553	258,193	—	—	263,553	258,193
Inheritance tax	103,811	158,178	—	—	103,811	158,178
Tobacco products tax	242,071	249,664	—	—	242,071	249,664
Other taxes	316,819	339,109	—	—	316,819	339,109
Tobacco settlement	175,838	168,583	—	—	175,838	168,583
Unrestricted investment earnings	106,738	238,239	—	—	106,738	238,239
Miscellaneous	66,500	49,345	—	—	66,500	49,345
Total revenues	36,405,645	37,354,483	3,572,882	2,328,249	39,978,527	39,682,732
Expenses:						
General government	1,329,539	1,232,088	—	—	1,329,539	1,232,088
Primary and secondary education	10,098,851	10,631,920	—	—	10,098,851	10,631,920
Higher education	3,951,862	4,207,410	—	—	3,951,862	4,207,410
Health and human services	16,179,227	14,951,585	—	—	16,179,227	14,951,585
Economic development	637,876	746,471	—	—	637,876	746,471
Environment and natural resources	722,722	753,909	—	—	722,722	753,909
Public safety, corrections and regulation	2,742,952	2,627,007	—	—	2,742,952	2,627,007
Transportation	1,970,408	1,941,207	—	—	1,970,408	1,941,207
Agriculture	110,314	119,297	—	—	110,314	119,297
Interest on long-term debt	289,211	304,020	—	—	289,211	304,020
Unemployment compensation	—	—	3,255,448	1,002,866	3,255,448	1,002,866
N.C. State Lottery	—	—	877,403	712,718	877,403	712,718
EPA Revolving Loan	—	—	7,868	12,454	7,868	12,454
Regulatory commissions	—	—	37,644	34,791	37,644	34,791
Insurance programs	—	—	14,970	17,556	14,970	17,556
North Carolina State Fair	—	—	14,053	12,828	14,053	12,828
Other business-type activities	—	—	6,583	6,364	6,583	6,364
Total expenses	38,032,962	37,514,914	4,213,969	1,799,577	42,246,931	39,314,491
Increase (decrease) in net assets before contributions and transfers	(1,627,317)	(160,431)	(641,087)	528,672	(2,268,404)	368,241
Contributions to permanent funds	3,248	3,894	—	—	3,248	3,894
Transfers	423,608	346,848	(423,608)	(346,848)	—	—
Increase (decrease) in net assets	(1,200,461)	190,311	(1,064,695)	181,824	(2,265,156)	372,135
Net assets - beginning - restated	30,006,353	29,816,042	1,896,300	1,714,476	31,902,653	31,530,518
Net assets - ending	$ 28,805,892	$ 30,006,353	$ 831,605	$ 1,896,300	$ 29,637,497	$ 31,902,653

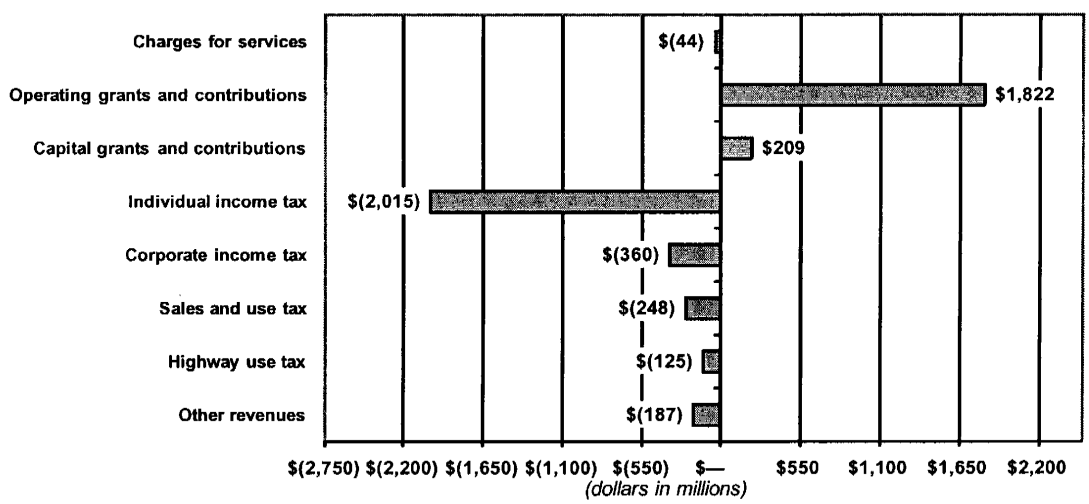
Governmental Activities

The downturn in the State and national economy translated into unprecedented declines in tax revenues for the 2009 fiscal year, resulting in a $1.2 billion decrease in net assets of governmental activities. Even after the recognition of federal recovery funds, total revenues decreased by 2.54% to $36.406 billion. Total expenditures grew slowly at 1.38% to $38.033 billion. The slow growth in total expenditures is attributable to the significant decline in tax revenues and by the actions taken by the Governor during the fiscal year to reduce spending. However, transfers-in were higher in fiscal year 2009 due to the larger net profits achieved by the N.C. Education Lottery, a business-type activity.

On February 17, 2009 the U.S. Congress enacted the American Recovery and Reinvestment Act of 2009 (ARRA). A direct response to the economic crisis, the ARRA has three immediate goals: 1) create new jobs as well as save existing ones, 2) spur economic activity and invest in long-term economic growth, and 3) foster unprecedented levels of accountability and transparency in government spending. To help achieve these goals, the ARRA assisted states with their budget shortfalls. The ARRA provides that funds be distributed over three years: 2009, 2010, and 2011. In response to this legislation, the Governor established the North Carolina Office of Economic Recovery and Investment to coordinate the State's handling of ARRA funds and state-level economic recovery initiatives. During the 2009 fiscal year, the State recognized $1.165 billion of ARRA funds (federal recovery funds), which are included in operating grants and contributions (i.e., program revenues).

The following chart reflects the dollar change in the revenues by source of governmental activities between fiscal years 2008 and 2009:

Dollar Change in Governmental Activities Revenues by Source Between Fiscal Years 2008 and 2009



Spending decreased in the majority of the State's functional areas, with the major exceptions being general government; health and human services; and public safety, corrections, and regulation. Primary and secondary education had the largest decrease in dollars, which was due primarily to a court judgment rendered against the State in the previous fiscal year. In 2008, a Superior Court judge ruled that the State owed $749.886 million for certain civil fines and penalties that should have been remitted to North Carolina public schools and not diverted to other uses (see Note 21 to the financial statements). Despite enrollment increases, higher education expenses fell in fiscal year 2009 due to significant budget cuts and to larger distributions of higher education bond proceeds in the previous fiscal year. The increase in general government expenses was due primarily to the General Assembly appropriating $250 million to the State Health Plan to pay claims expenses and to resolve cash flow issues.

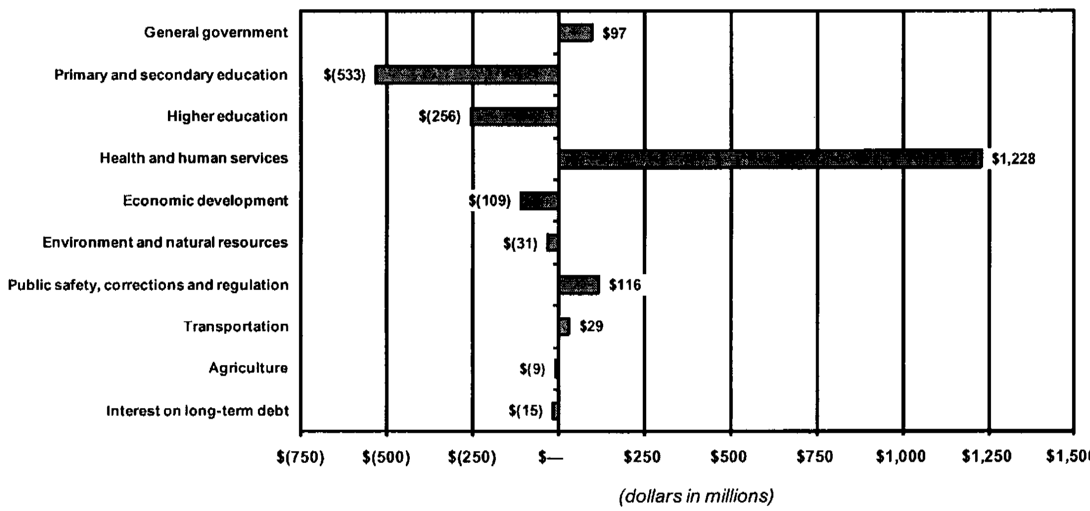
Higher education expenses are financed primarily by State appropriations. The State Constitution provides that "the benefits of the University North Carolina and other public institutions of higher education, as far as practicable, be extended to the people of the State free of expense."

The growth in health and human services is the result of increased spending for Medicaid (the State's largest public assistance program). The State experienced a substantially increased enrollment in the Medicaid program due to the economic downturn in North Carolina. Because the State receives federal matching funds for the Medicaid Program, there was also a corresponding increase in operating grants and contributions (i.e., program revenues).

Medicaid is a federal entitlement program, which means individuals found eligible for Medicaid have legal rights to receive services and cannot be denied coverage by the State. In North Carolina, Medicaid is administered by the State and counties and financed with federal, State, and county funds. Higher growth rates occur during years of economic distress and when major Medicaid expansions are enacted. Lower growth rates occur when the Medicaid eligible population is stable or declining.

The following chart reflects the dollar change in the functional expenses of governmental activities between fiscal years 2008 and 2009:

Dollar Change in Governmental Activities Functional Expenses Between Fiscal Years 2008 and 2009

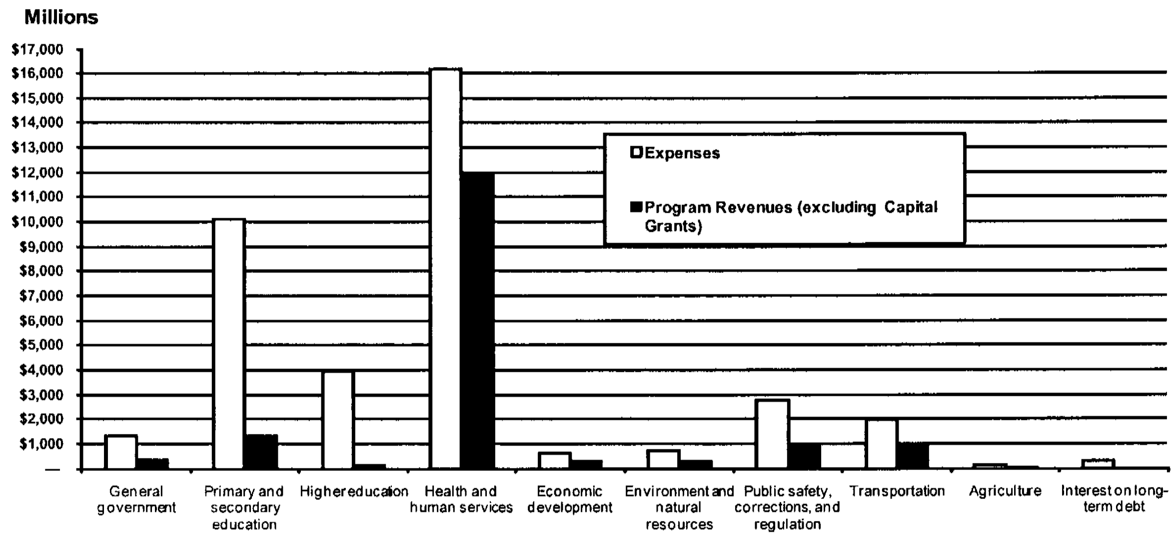


The 2007 Session of the General Assembly enacted legislation requiring the State to assume the counties' share of the nonfederal share of Medicaid costs over a three-year period, beginning October 1, 2007. To provide resources to assume these costs, the legislation phases out the local sales tax by one-half cent and makes a corresponding increase in the State sales tax rate. Below is a schedule of the Medicaid funding changes and the shift in local sales tax to the State:

Date	Medicaid Funding Change	Shift Local Sales Tax to State
10-01-07	State assumes 25% of counties' share	
7-01-08	State assumes 50% of counties' share	
10-01-08		50% of ½% local sales tax is shifted to State
7-01-09	State assumes 100% of counties' share	
10-01-09		Remaining 50% is shifted to State

The following chart depicts the total expenses and total program revenues of the State's governmental functions. This format identifies the extent to which each governmental function is self-financing through fees and intergovernmental aid or draws from the general revenues of the State.

Expenses - Governmental Activities
Fiscal Year Ended June 30, 2009



Business-type Activities

Business-type activities reflect an overall decrease in net assets of $1.065 billion or 56.15%, primarily because of the financial results of the Unemployment Compensation Fund. For fiscal year 2009, the Unemployment Compensation Fund had an operating loss (excess of operating expenses over operating revenues) of $2.177 billion. The Unemployment Compensation Fund and the EPA Revolving Loan Fund comprise over 84% of the total net assets of business-type activities. The N.C. State Lottery Fund has no net assets since its net profits are distributed to the State's governmental activities, as required by statute. A more detailed discussion of the State's business-type enterprise activities is provided in the following section (see Enterprise Funds).

FINANCIAL ANALYSIS OF THE STATE'S FUNDS

The State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the State's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. As of the end of the fiscal year, the State's governmental funds reported combined ending fund balances of $2.889 billion, a decrease of 48.97% from the prior fiscal year-end (as restated). The primary contributor to the decline was the General Fund, which had a $2.454 billion decrease in fund balance in 2009. The substantial decrease in total fund balance of governmental funds was partially offset by the receipt of federal recovery funds, primarily in the General Fund, and by unspent debt proceeds reported in other governmental funds. The State issued debt in the current fiscal year for state and university capital improvement projects. The major governmental funds are discussed individually below.

General Fund

The General Fund is the chief operating fund of the State. The fund balance of the General Fund declined substantially from $1.678 billion at June 30, 2008 (as restated) to negative $775.864 million at June 30, 2009. For fiscal year 2009, the State appropriated most of the beginning unreserved fund balance, appropriated $1.155 billion of federal recovery funds, reduced expenditures, and transferred amounts from other funds (and statutory reserves) to finance a General Fund revenue shortfall (excess of total expenditures over total revenues) of $2.983 billion. Despite the receipt of federal recovery funds, total revenues of the General Fund decreased for the first time in seven years. General Fund tax revenues decreased dramatically. A sharp rise in the State's unemployment rate contributed to a 2% decline in withholding tax payments by employers and a 31.1% decline in final income tax payments by taxpayers. Refunds of individual income taxes increased 13.8%. Additionally, the tax rate on higher income taxpayers was reduced from 8% to 7.75% for tax year 2008. Corporate income taxes, which are highly volatile over the business cycle, decreased by 25.61%. Even with a rise in the State sales and use tax from 4.25% to 4.5%, effective October 1, 2008, sales and use tax revenues decreased by 4.94%. The rise in the State unemployment rate contributed to a downturn in consumer spending. The housing sector was impacted most by the decline. A more detailed analysis of the General Fund is provided in the budgetary highlights section below.

2008-09 General Fund Budgetary Highlights

Because of recessionary economic conditions in the nation and North Carolina, the Governor became aware that actual receipts for the current fiscal year would not meet expenditures anticipated and budgeted by the 2008 General Assembly. Accordingly, on January 13, 2009, the Governor issued Executive Order No. 6, *Budget Administration Due to National Economic Slowdown*, to ensure that a deficit was avoided. The State Constitution requires the Governor to affect the necessary economies in State expenditures to maintain a balanced budget.

Executive Order No. 6 ordered the Office of State Budget and Management to do the following: 1) reduce, as necessary, State expenditures from funds appropriated to operate State departments and institutions, resulting in reversions of $1.7 billion, 2) halt expenditures for capital improvement projects for which State funds have been appropriated but not placed under State contract, resulting in reversions of $175.9 million ($40 million was also transferred from capital improvement projects that were completed but had unexpended funds), 3) transfer, as necessary, non-General Fund and non-Highway Fund receipts into the General Fund to support appropriation expenditures, which included $386.6 million from the Rainy Day Fund, $337.5 million of cash balances from other funds, and $10.1 million from three other statewide reserves, and 4) other steps as specified in the Order.

The single largest funding priority of the General Assembly was compensation increases for teachers and State employees, which totaled $368 million. Teachers and instructional support staff received an average increase of 3%. University and community college faculty also received an additional 3%. Most of the other State-funded positions received increases of 2.75%.

The State Health Plan (Plan) required additional funding in fiscal year 2009. Budget projections originally developed at the beginning of the fiscal biennium indicated that the Plan's cash balance would decrease by $61.8 million in fiscal year 2009. The Plan developed a revised budget for fiscal year 2009 as a result of its financial performance in fiscal year 2008 and to address forecasting concerns. The Plan's revised budget projected a $124.7 million cash shortfall at year-end. The General Assembly appropriated $250 million from the State's Savings Reserve Account to cover the shortfall and to ensure the Plan had sufficient cash reserves to start the 2010 fiscal year.

One of the major budget drivers for the General Fund is the Medicaid Program. In recent years, annual increases have averaged over 10%, primarily due to increases in caseload and overall health care costs. State funding for the Medicaid Program totaled $3.18 billion in 2008-09 (compared to $2.92 billion in 2007-08) and the total Medicaid budget was $11.74 billion. During the current fiscal year, the Medicaid Program experienced substantial increases in enrollment as a result of the economic downturn, and this growth has continued in fiscal year 2010. In response, the State has implemented significant changes designed to reduce the overall expenditures of the program, while attempting to preserve access to critical services. Legislative changes include reductions in provider rates, changes in programs and clinical policy, increasing recipient co-pays, implementing or modifying specific contracts to reduce costs or improve drug rebates, and eliminating both vacant and filled positions. Overall, these changes will result in approximately $1.5 billion of total expenditures (federal and state) being removed from the Medicaid Program in fiscal year 2010. During the 2007 legislative session, the General Assembly enacted Session Law 2007-323, a historical fiscal policy change that began a three-year phase-out of the financial participation of county governments in covering the cost of Medicaid.

The new Central Regional Hospital in Butner opened in September 2008 and will serve patients from 26 counties. This hospital is the first of three new state-operated psychiatric hospitals being built in North Carolina.

General Fund Budget Variances

The original General Fund budget, including state appropriations and appropriations supported by departmental receipts, serves as a starting point or plan for the Governor to execute the General Fund budget pursuant to the powers granted by the State Budget Act. At the state level in North Carolina, it is not unusual for the budget to change during the fiscal year in relation to budget adjustments made to accommodate departmental receipts. The General Fund budget supported by state appropriation is a subset of the General Fund financial schedule presented in the CAFR as required supplementary information. The current CAFR schedule reflects all spending required to support the State's General Fund activities and the funding to support those activities, including state tax and non-tax revenues, federal revenues, student tuition, and other fees, licenses, and fines.

Under current state budget management practice, particularly related to departmental federal receipts, primary emphasis is placed on comparisons of the final authorized budget and actual spending.

At the state level, budgetary cuts related to state appropriations are implemented by decreasing allowable actual expenditures, as opposed to decreasing the state appropriation through a formal legislative process. The Governor and state agencies maintain legal authority to spend the dollars originally appropriated to them; however, in recent years the actual spending has been limited by the collection of tax and nontax revenue. In extremely rare cases, the General Assembly has held special sessions to formally amend the state appropriation budget.

The portion of the original budget comprising departmental receipts is not intended to be the sole controlling point to manage the State's General Fund budget. The final budget includes amendments for departmental receipts collected during the fiscal year as allowed by law. General Fund departmental receipts are typically authorized for expenditure within the activity that generated the receipt. Historically, final estimated receipts have varied significantly from the original estimate at the beginning of the fiscal year. State agencies by law must spend departmental receipts prior to spending tax and nontax supported appropriations. If departmental receipts are higher than expected, appropriated dollars may go unspent and be re-appropriated in a subsequent fiscal year.

Variances – Original and Final Budget

In general, the variances between original and final budget are attributable to the timing and length of the budget preparation process. The original budget for the 2008-09 fiscal year was prepared by the Governor's staff approximately 18 months prior to the beginning of fiscal year 2008-09 and 30 months prior to the final budget existing at June 30, 2009. The final budget reflects all budget revisions made throughout the fiscal year to adjust for known facts as well as supplemental adjustments approved in the 2008 Short Session of the General Assembly. Therefore, the original budget is an estimate based on information that is 18 months old. Consequently, when the original budget is compared to the final budget, it would be expected that significant variances can occur.

Additional factors leading to variances between original and final budget in fiscal year 2008-09 include the following:

1) Awarding of new unanticipated federal grants and/or the awarding of unanticipated increased or decreased amounts in long-standing federally supported programs. This also leads to the necessity of budgeting the unanticipated required state match.
2) Statewide encumbrance carry-forward budgeted amounts from fiscal year 2007-08 totaled $354.6 million.
3) Allocation of statewide reserves to agencies and universities for the purposes of legislative increases, salary adjustments, retirement and hospitalization formula adjustments, contingency and emergency, and information technology related programs, and other budgeted statewide reserves.
4) Receipt of and budgeting of over-realized receipts, prior year earned revenues, and unanticipated donations or grants.
5) Inaccurate and unreasonable revenue and expenditure budget amounts entered by the agency during the continuation budget preparation process.
6) Budgeting of American Recovery and Reinvestment Act federal funds that increased the final revenue and expenditure budgets.

Variances - Final Budget and Actual Results

Actual total revenue collected (both tax and non-tax) was significantly below budgeted amounts in fiscal year 2008-09. Similar to the experience in many other states, the December 2008 recession caused unprecedented declines in North Carolina's revenue collections. While North Carolina's revenue forecast anticipated a slowdown, it did not expect a financial market collapse and major recession. This translated into historic declines in sales and use tax collections and individual income tax collections, North Carolina's two largest revenue sources.

Departmental federal funds actually received by agencies were less than the final authorized budgeted federal fund revenues. A variance between the budget and actual federal funds will usually occur because federal fund actual receipts are reflective of the actual expenditures. Therefore, if qualifying federal costs are not incurred by an agency, the actual receipt of federal funds could be significantly less than what has been budgeted.

The expenditure variances between the final budget and actual for the functional areas of education; health and human services; and public safety, correction, and regulation is primarily a result of the revenue shortfall during fiscal year 2008-09. Measures taken by the Governor to prevent expenditures that exceeded the tax and non-tax revenue collected included a significant reduction in the allotment of cash to all state agencies, universities and institutions. Therefore, expenditures and requirements that are dependent upon the receipts of these revenues could not occur.

Highway Fund

The Highway Fund dates back to 1921, which is when the N.C. General Assembly first imposed the gasoline tax. It accounts for most of the activities of the North Carolina Department of Transportation (NCDOT), including the maintenance and construction of the State's primary and secondary road systems, the Division of Motor Vehicles, the State Highway Patrol, transit, rail and ferry system. The primary revenue sources of the Highway Fund are federal funds, three-fourths of gasoline taxes, vehicle registration fees, and driver's license fees.

The fund balance of the Highway Fund increased from $975.885 million at June 30, 2008 (as restated) to $1.021 billion at June 30, 2009, an increase of 4.65%. Total revenues increased by $97.5 million or 3.41% primarily because of an increase in federal funds, grant anticipation revenue vehicle (GARVEE) debt service reimbursement, increased apportionments for the National Highway System Program and an increase in the Obligation Formula Limit allowed NCDOT to increase billings from the Federal Highway Administration resulting in an increase in federal revenues. However, the increase in federal funds was partially offset by decreases in gasoline taxes, investment earnings, and Division of Motor Vehicle (DMV) fees. Although wholesale gasoline and diesel prices were down in fiscal year 2009 compared to 2008, overall consumption decreased from the previous year especially in the diesel category which was down 11.39%. This resulted in an overall decrease of $46.34 million or 3.98% in gasoline taxes in the Highway Fund. In the previous fiscal year, $287.57 million in GARVEE's were issued. This innovative financing tool was used to accelerate the funding of transportation improvement projects across the State by leveraging future federal transportation revenues. At June 30, 2009, $51.99 million of the GARVEE proceeds were unspent. In August 2009, $242.52 of additional GARVEE bonds were issued.

Transportation expenditures decreased by $83.23 million or 3.07%. In response to declining revenues early in the fiscal year, NCDOT initiated a hiring and salary freeze and requested all business units reduce spending by 6%. Contract lettings for various transportation improvement projects were also delayed due to the economic conditions. Debt service expenditures increased significantly due to the GARVEE bonds issued in the previous fiscal year.

Population growth is placing an increasing demand on the State's transportation system. North Carolina's population grew from 8.05 million in 2000 to 9.39 million in 2009, an increase of 16.65%. This growth is expected to continue for the foreseeable future. The U.S. Census estimates North Carolina's population growing to approximately 12.2 million by 2030, which would place the state as the seventh most populated state in the country. According to the 2008 Report on the Condition of the State Highway System prepared by the Division of Highways, over the past 10 years (1998 to 2007), the number of paved miles increased by almost 11% and the square footage of bridge deck area grew by over 23%. During this same 10 year period, vehicle miles traveled increased by over 26%. This rapid increase in vehicle miles traveled places a heavier burden on the existing infrastructure and accentuates the need for additional capacity, safety, and maintenance funding to address the deterioration in service created by the increase in traffic. Furthermore, many of the State's highways were built as farm-to-market roads and were not designed to handle the heavy traffic volumes of today and other highways such as the interstate highway system, which has celebrated its 50th anniversary, are nearing the end of their functional life.

Transportation is fundamental in continuing North Carolina's prosperity and quality of life as the state's population continues to grow. To address the growing demand on the transportation system, increased cost of supplies, and declining funding, NCDOT continues to seek innovative solutions to meet the growing stress on the transportation system. In response to declining motor fuels tax and the decreasing purchasing power of the Highway Fund, Session Law 2009-108 repealed the cap on the motor fuels tax and set the variable portion of the tax at 12.4 cents per gallon or 7% of the average wholesale price whichever is greater, thus setting a floor of 29.9 cents per gallon. This will remain in place through June 30, 2011.

Highway Trust Fund

Legislation creating the Highway Trust Fund was passed by the General Assembly in 1989. It was established to provide a dedicated funding mechanism to meet a specific set of highway construction needs in North Carolina. Additionally, the Highway Trust Fund provides supplemental allocations for secondary road construction, supplemental assistance to municipalities for local street projects, and pays the debt service on the State's general obligation bonds issued for highway purposes.

The principal revenue sources of the Highway Trust Fund are highway use taxes, one-fourth of gasoline taxes, and various title and registration fees. The enabling legislation also specifies that a designated amount will be transferred each year to the General Fund (see Note 9 to the financial statements). The amounts transferred to the General Fund for fiscal years 2009 and 2008 were $147.53 million and $172.54 million, respectively.

The fund balance of the Highway Trust Fund decreased from negative $158.753 million at June 30, 2008 (as restated) to negative $169.629 million at June 30, 2009, a decrease of 6.85%. Total revenues decreased by $158.4 million or 14.8% primarily because of decreases in highway use taxes, gasoline taxes, and DMV fees. The highway use tax, 3% on most sales, represents a major funding source for the Highway Trust Fund. Due to the economic downturn of 2009, the decrease in auto sales resulted in a $125.4 million or 22.15% decrease in use taxes along with a $15 million decrease in title fees. The factors contributing to the decrease in gasoline tax revenues were discussed previously in the analysis of the Highway Fund. Total expenditures decreased by $127.3 million or 14.92%. Moving Ahead construction expenditures decreased by $23 million as the program continues project completions. Intrastate expenditures decreased by $170.7 million due to the completion or near completion of several projects including the US70 Clayton Bypass. Prior year sub-recipient expenditures were reclassified for $85 million from the Highway Fund to the Highway Trust Fund.

The 2008 Report on the Condition of the State Highway System also noted that since passage of the Highway Trust Fund in 1989, the Department of Transportation has paved over 10 thousand miles of unpaved secondary roads, leaving only 3,400 miles of secondary roads to be paved. In view of the fact that the paved secondary road system has not kept up with the demands of increased urbanization and traffic, the 2006 Session of the General Assembly approved changes in the General Statutes that govern the use of secondary road construction funds. House Bill 1825, effective July 1, 2006 until June 30, 2010, allows the use of these funds, originally designated to pave secondary roads, on the paved secondary road system in order to improve their functionality through safety, modernization, and condition improvements.

Enterprise Funds

The State's enterprise funds or business-type activities provide the same type of information found in the government-wide financial statements, but in more detail. The major enterprise funds are discussed individually below.

Unemployment Compensation Fund

The net assets of the Unemployment Compensation Fund (Trust Fund) decreased from $847.69 million at June 30, 2008 to negative $298.761 million at June 30, 2009. This decrease is directly related to the decline in the State and national economies. Over the last 12 months, North Carolina employment is down by over 197 thousand workers and unemployment has increased by over 224 thousand people. During this same period, North Carolina's seasonally adjusted unemployment rate rose from 6.1% in June 2008 to 11% in June 2009. The largest employment losses were realized in the following sectors: Manufacturing (-73,600), Construction (-43,300), Professional and Business Services (-41,100), and Trade, Transportation, and Utilities (-38,700).

The Trust Fund's operating margin (operating revenues less operating expenses) was negative $2.177 billion this year compared to $90.44 million in 2008. Unemployment benefit expenses increased 225% in fiscal year 2009 to $3.253 billion. Because of depleted cash balances, the Trust Fund borrowed funds from the U.S. Treasury, beginning in February 2009, to ensure uninterrupted payment of unemployment benefits. At June 30, 2009, the short-term debt balance was $728.773 million compared to zero at the previous fiscal year-end. These advances will be repaid with subsequent employer contributions. It is anticipated that this borrowing will continue through the next fiscal year-end. The advances from the U.S. Treasury are currently interest free through December 31, 2010. A 20% surcharge on unemployment contributions, effective January 1, 2005 as required by statute, remained in effect during the current fiscal year. The surcharge is still in effect because the balance in the Trust Fund has not reached the trigger "off" level.

During this period of high unemployment, the federal government has provided various types of assistance to extend benefits. This year, the State received multiple types of assistance that are classified as nonoperating revenues. They are as follows:

1. The Emergency Unemployment Compensation extension began in July 2008 and provided $714 million in assistance. This program was extended in February 2009 and the extension provided an additional $136 million in benefits.
2. In February 2009, the American Recovery and Reinvestment Act provided additional assistance in two forms:
   - The Federal Additional Compensation program provided an additional $25 a week to every benefit payment. The State began making payments in April and provided an additional $132 million in assistance through June 30, 2009.
   - The Extended Benefit (EB) and High Unemployment Period 100% programs were implemented where the Federal government pays 100% of the benefits for those states that have triggered on to EB. The State began making payments in April and provided an additional $19 million in benefits through June 30, 2009.

N.C. State Lottery Fund

The N.C. Education Lottery (NCEL) first began selling game tickets on March 30, 2006 (instant game) and first began selling multi-state on-line (Powerball) game tickets on May 30, 2006. As required by enabling legislation, net revenues of the NCEL are transferred four times a year to the N.C. Education Lottery Fund (a nonmajor governmental fund). The NCEL transferred $413.929 million to the N.C. Education Lottery Fund in 2009 to support educational programs for the State. The amount transferred in 2008 was $348.31 million. At year end, the net assets of the NCEL are zero. The NCEL has no changes in the net assets from year to year.

For fiscal year 2009, net ticket sales increased 22.4% from the previous fiscal year, surpassing $1 billion for the second straight year. Significant financial highlights include the following: two new instant games were introduced with chances to win lifetime annuities; a third daily draw online game, Carolina Pick 4, was launched in April; the number of retailers was increased to over six thousand; and 45 new instant scratch-off games were created and released every two to four weeks.

The Lottery Commission approved a budget for 2009-10 to provide $370 million to the State's Education Lottery Fund, representing a 4% decrease from the previous year's budget. The budgeted decrease reflects the current economic conditions in the State and its impact on lottery ticket sales. As established in the enabling legislation, lottery funds are to be distributed for educational purposes as follows:

1. 50% to support reduction of class size in early grades and to support prekindergarten programs for at-risk four-year-olds who would otherwise not be served in high quality settings *(Note: to date, these programs have been funded by the General Fund).*
2. 40% for public school construction.
3. 10% to the State Education Assistance Authority to fund college and university scholarships.

EPA Revolving Loan Fund

The net assets of the EPA Revolving Loan Fund increased by $78.419 million during the current fiscal year, an 8.5% increase from the prior fiscal year-end. Operating income was $11.125 million (operating revenues less operating expenses). Net nonoperating revenues were $58.914 million, consisting primarily of federal capitalization grants and investment earnings. The $8.684 million transferred in from other governmental funds (i.e., special revenue funds) consisted of clean water bond proceeds and additional funds to meet a required federal match.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2009, the State's investment in capital assets was $34.314 billion, an increase of 4.91% from the previous fiscal year-end (see table below).

Capital Assets as of June 30
(net of depreciation, dollars in thousands)

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Land	$ 11,222,414	$ 10,676,804	$ 3,452	$ 3,452	$ 11,225,866	$ 10,680,256
Buildings	2,024,434	1,865,345	16,587	17,277	2,041,021	1,882,622
Machinery and equipment	669,665	683,829	3,795	4,038	673,460	687,867
Infrastructure:						
State highway system	18,032,846	17,081,956	—	—	18,032,846	17,081,956
Other infrastructure	100,075	97,092	6,246	6,764	106,321	103,856
Intangible assets	103,828	103,423	—	—	103,828	103,423
Art, literature, and other artifacts	67,162	66,389	—	—	67,162	66,389
Construction in progress	2,062,687	2,100,567	532	532	2,063,219	2,101,099
Total	$ 34,283,111	$ 32,675,405	$ 30,612	$ 32,063	$ 34,313,723	$ 32,707,468
Total percent change between fiscal years 2009 and 2008	4.92 %		(4.53)%		4.91 %	

This year's major capital asset additions were for highway construction ($1.3 billion), highway land improvements ($477 million), construction of correctional facilities ($51 million), and construction of youth development centers ($34 million).

The largest component of capital assets is the State highway system. North Carolina has a 79 thousand mile highway system, making it the second largest state-maintained highway system in the nation. The most recent report on the condition of the State highway system (December 2008) noted that while the system continues to grow, the traditional highway maintenance funds have increased, but not enough to keep up with inflation and system growth.

During the 2008-2009 fiscal year, the State completed construction of a 1,000 bed close custody prison in Columbus County. The total cost of this facility was $102.85 million. The primary funding source for this facility was certificates of participation (COPs). In addition, COPs have been authorized for the planning and construction of a new regional 120 bed medical center and 216 bed mental health center to be located at Central Prison in Raleigh. The estimated cost for the construction of the medical and mental health centers is $153.6 million, of which $132.2 million will be financed by COPs. At year-end, construction in progress for the Central Prison medical center totaled $42.1 million. The State has scheduled for closure seven correctional facilities, which will all occur in fiscal year 2010. Also, three facilities will be converted from medium to minimum custody.

The Department of Correction is undertaking construction initiatives to address a prison cell shortfall and to allow for the implementation of sentencing reform. The State's correctional facility population has more than doubled since 1980 to over 40 thousand inmates as of November 2009. The rapid growth in inmates is attributable to increases in the State's population, increases in length of stay in correctional facilities, and changes in criminal laws.

As further detailed in Note 21(F) to the financial statements, the State has commitments of $1.38 billion for the construction of highway infrastructure, which are expected to be financed by gasoline tax collections, motor vehicle fees, and federal funds. Other commitments for the construction and improvement of state government facilities totaled $761.66 million, which are expected to be financed primarily by debt proceeds (special indebtedness), state appropriations, and federal funds.

More detailed information about the State's capital assets is presented in Note 5 to the financial statements.

Long-term Debt

At year-end, the State had total long-term debt outstanding (general obligation bonds, special indebtedness, and grant anticipation revenue vehicle (GARVEE) bonds, adjusted for deferred amounts) of \$7.368 billion, an increase of 1.87% from the previous fiscal year-end (see table below).

Outstanding Debt as of June 30
(adjusted for deferred amounts, dollars in thousands)

	Governmental Activities	
	2009	2008
General obligation bonds	\$ 5,169,265	\$ 5,533,760
Special Indebtedness:		
Lease-purchase revenue bonds	225,045	235,045
Certificates of participation	919,585	965,880
Limited obligation bonds	600,000	—
GARVEE bonds	241,820	287,565
Deferred debt premiums	275,131	287,272
Less: Deferred debt discounts and amounts on refundings	(63,011)	(77,049)
Total bonds and similar debt payable	\$ 7,367,835	\$ 7,232,473
Total percent change between fiscal years 2009 and 2008	1.87 %	

During the 2008-09 fiscal year, the State issued \$600 million in limited obligation bonds, representing the State's first use of this type of debt. The proceeds of the bonds will be used to finance various State and university capital improvement projects, which were authorized for special indebtedness financing by previous sessions of the General Assembly.

The State issues two types of tax-supported debt: general obligation bonds and various types of "special indebtedness" (i.e., debt not subject to a vote of the people). General obligation bonds are secured by the full faith, credit, and taxing power of the State and require approval by a majority of voters. The payments on special indebtedness are subject to appropriation by the General Assembly and may also be secured by a lien on facilities or equipment. The General Statutes (Chapter 142, Article 9) prohibits the issuance of special indebtedness except for projects specifically authorized by the General Assembly. Different forms of special indebtedness, also known as appropriation-supported debt, are authorized. One form, "financing contract indebtedness" includes lease-purchase revenue bonds and certificates of participation and has been used by the State historically. The other form is limited obligation bonds, which may be issued by the State directly rather than through the N.C. Infrastructure Finance Corporation, a conduit issuer. The use of alternative financing methods provides financing flexibility to the State and permits the State to take advantage of changing financial and economic environments. The GARVEEs are a revenue bond-type debt instrument where the debt service is to be paid solely from federal transportation revenues. The GARVEEs were issued in October 2007 to accelerate the funding of transportation improvement projects across the State.

The State's long-term debt (general obligation bonds, special indebtedness, and GARVEE bonds) has increased significantly in recent years, rising from \$3.478 billion in 2002 to \$7.368 billion in 2009, in part due to large issuances for higher education capital projects. Prior to 2004, the State only issued general obligation debt. The following is a summary of recent debt authorizations.

The 2009-10 Session of the General Assembly modified the way that existing authorized and unissued indebtedness may be financed in the future. Projects may be financed using general obligation bonds up to a limit of \$488 million or with appropriation supported special indebtedness financing up to a limit of \$1.482 million. Projects may also be financed in total by some combination of general obligation bonds and special indebtedness (except guaranteed energy savings contracts).

Special Indebtedness

The 2009-10 Session of the General Assembly reduced special indebtedness authorizations for various projects by over $115 million to generate additional debt capacity.

The 2008-09 Session of the General Assembly authorized the issuance of up to $734.03 million of special indebtedness as follows: $512.22 million for higher education projects, $109.09 million for correctional facilities, $50 million for acquiring State park lands and conservation areas and, $62.72 million for other State projects.

The 2007-08 Session of the General Assembly authorized the issuance of up to $669.15 million of special indebtedness as follows: $481.14 million for higher education projects, $120 million to acquire State park land, natural heritage land, and to acquire waterfront properties or develop facilities for the purposes of providing public and commercial waterfront access, $35 million for an education and visitors center at Tyron Palace, and $33.01 million for correctional facilities.

The 2006-07 Session of the General Assembly authorized the issuance of up to $672.1 million of special indebtedness as follows: $429.3 million for psychiatric hospitals and a public health laboratory for the Department of Health and Human Services, $132.2 million for medical and mental health centers for the Department of Correction, $45.8 million for higher education projects, and $64.8 million for other State projects.

Repair and Renovation Authorization

The 2002-03 Session of the General Assembly authorized the issuance of $300 million of special indebtedness to finance the repair and renovation of State facilities and related infrastructure that are supported by the State's General Fund. Of the $300 million, approximately $157 million was allocated to the University of North Carolina System. Each of the 16 constituent institutions of the UNC System received a portion of the proceeds for repairs and renovations. The remaining $143 million of the proceeds was used to make repairs and renovations to various state facilities. The State has issued all of the authorized repair and renovation debt.

Higher Education Authorization

The 1999-00 Session of the General Assembly authorized the issuance of $3.1 billion of higher education improvement bonds, which were subsequently approved by the voters of the State. The $3.1 billion bond authorization represents the largest debt authorization in the State's history. The proceeds of these general obligation bonds were used solely to construct new buildings and to renovate and modernize existing buildings on the State's 58 community college and 16 University of North Carolina campuses. These improvements were needed to meet enrollment demands and to ensure that the State's college and university buildings meet modern code requirements and are equipped to prepare graduates for 21st century jobs. The bond legislation passed by the General Assembly specifies the amount of bond funding that flows to each community college and university campus. The State has issued all of the authorized higher education bonds.

Clean Water and Natural Gas Authorization

The 1997-98 Session of the General Assembly authorized the issuance of $1 billion of clean water and natural gas general obligation bonds, which were subsequently approved by the voters of the State. The bonds proceeds were used to provide grants and loans to local governments for clean water projects ($800 million) and to provide grants and loans for construction of natural gas facilities to facilitate the expansion of natural gas service to unserved areas of the State ($200 million). The State has issued all of the authorized clean water and natural gas bonds.

Highway Bond Authorization

The 1995-96 Session of the General Assembly authorized the issuance of $950 million of highway general obligation bonds, which were subsequently approved by the voters of the State. The bond proceeds were allocated to pay capital costs for urban loops ($500 million), highways in the Intrastate System ($300 million), and for paving unpaved roads of the secondary highway system ($150 million). The State has issued all of the authorized highway bonds.

Debt Affordability Advisory Committee

During the 2003-04 Session, the General Assembly created a Debt Affordability Advisory Committee (Committee) to annually advise the Governor and the General Assembly on the estimated debt capacity of the State for the upcoming ten fiscal years. The Committee is responsible for preparing an annual debt affordability study and establishing guidelines for evaluating the State's debt burden. The Committee is required to report its findings and recommendations to the Governor, the General Assembly, and the Fiscal Research Division of the General Assembly by February 1 of each year.

In February 2009, the State Treasurer completed the most recent Debt Affordability Study for North Carolina. The report provides the Governor and the General Assembly with a basis for assessing the impact of future debt issuance on the State's fiscal position and enables informed decision-making regarding both financing proposals and capital spending priorities. A secondary purpose of the report is to provide a methodology for measuring, monitoring and managing the State's debt levels, thereby protecting, and perhaps enhancing North Carolina's bond ratings.

The Committee adopted the following target and ceiling guidelines as the preferred measure used to determine the amount of net tax-supported debt that can be prudently authorized by the State:

- Net tax-supported debt service as a percentage of general tax revenues should be targeted at no more than 4% and not exceed 4.75%;
- Net tax-supported debt as a percentage of personal income should be targeted at no more than 2.5% and not exceed 3.0%; and
- The amount of debt to be retired over the next ten years should be targeted at no less than 55% and not decline below 50%.

The definition of net tax-supported debt excludes obligations of component units, Highway Fund debt paid from Highway Fund revenues, non tax-supported special indebtedness paid from non-General Fund supported trust funds, other self-supporting or non-tax supported debt such as revenue bonds and short term tax anticipation notes, and other postemployment benefits.

North Carolina has exhausted its capacity for debt. The State currently maintains a reasonable level of debt when compared with its peer group composed of the other states rated "triple A" by all three credit rating agencies. Credit rating agencies consider a debt affordability study as a positive factor when evaluating issuers and assigning credit ratings.

Credit Ratings

Credit ratings are the rating agencies' assessment of a governmental entity's ability and willingness to repay debt on a timely basis. Credit ratings are an important factor in the public credit markets and can influence interest rates a borrower must pay. The State's general obligation bond credit ratings are as follows:

State of North Carolina
General Obligation Bond Credit Ratings

Rating Agency	Rating	Outlook
Fitch Ratings	AAA	Stable
Moody's Investors Service	Aaa	Stable
Standard & Poor's Rating Services	AAA	Stable

These ratings are the highest attainable from all three rating agencies. A triple-A bond rating means that North Carolina has followed well-defined financial management policies and has demonstrated strong debt management practices. The State's proactive responses and history of taking early action to mitigate the impact of revenue declines were recognized. North Carolina remains one of only seven states to enjoy top-tier rankings from all three of the credit rating agencies.

The limited obligation bonds issued during the 2008-2009 fiscal year were assigned ratings of AA+ by Fitch Ratings, Aa1 by Moody's Investors Service, and AA+ by Standard & Poor's. Special indebtedness is not subject to a vote of the people and its repayment is based on the State's annual debt service appropriation. For these reasons, special indebtedness is rated lower than the State's general obligation bonds and typically carries a higher interest rate.

Limitations on Debt

The Constitution of North Carolina (Article 5, Section 3) imposes limitations upon the increase of certain state debt. It restricts the General Assembly from contracting debts secured by a pledge of the faith and credit of the State, unless approved by a majority of the qualified voters of the State, except for the following purposes:

1. To fund or refund a valid existing debt;
2. To supply an unforeseen deficiency in the revenue;
3. To borrow in anticipation of the collection of taxes due and payable within the current fiscal year to an amount not exceeding 50 percent of such taxes;
4. To suppress riots or insurrections; or to repel invasions;
5. To meet emergencies immediately threatening the public health or safety, as conclusively determined in writing by the Governor; and
6. For any other lawful purpose, to the extent of two-thirds of the amount by which the State's outstanding indebtedness shall have been reduced during the preceding biennium.

More detailed information about the State's long-term liabilities is presented in Note 7 to the financial statements.

Next Year's Budget and Rates

Similar to other states, the financial sector problems and rapid decline in economic conditions have led to historic revenue declines in North Carolina. Because of the sluggish economy, the General Assembly projected baseline General Fund revenues to decline by 1.6% in fiscal year 2009-10. Substantive tax and revenue adjustments included by the General Assembly and in the approved budget are as follows:

- A temporary increase in the general state rate of sales and use tax from 4.5% to 5.5%, effective September 1, 2009. The increase is scheduled to expire on July 1, 2011.
- An individual income tax surcharge of 2% or 3% is imposed on taxpayers who meet certain income requirements. The surcharge expires for taxable years on or after January 1, 2011.
- A corporate income tax surcharge of 3% is imposed on corporations subject to income tax. The surcharge expires for taxable years on or after January 1, 2011.
- The following state excise taxes were increased: beer from 53.177 cents to 61.71 cents per gallon, unfortified wine from 21 cents to 26.34 cents per liter, fortified wine from 24 cents to 29.34 cents per liter, liquor from 25% to 30% of sales, cigarettes from 1.75 cents to 2.25 cents per individual cigarette, and tobacco products other than cigarettes from 10% to 12.8% of the cost price of the products.
- The 2009-10 State budget included the following adjustments to availability for the above taxes: sales tax increase - $803.5 million, individual income tax surcharge - $172.8 million, corporate income tax surcharge - $23.1 million, and various excise tax increases - $68.8 million.

Because of the economic volatility in the State and nation and the need to exercise fiscal restraint, the Governor, on August 14, 2009, issued Executive Order No. 21, *Reduce Monthly Budget Allotments for the 2009-10 Fiscal Year*. It ordered the Office of State Budget and Management to reduce monthly allotments by 5% of each agency's certified budget. Special exceptions were provided.

Conditions Expected to Impact Future Operations

State Health Plan

The 2009-10 Session of the General Assembly enacted a number of changes to the State Health Plan's preferred provider organization (PPO) benefits and programs, including medical and prescription drug copayment changes, the discontinuance of the PPO Plus Plan, and the establishment of a new Comprehensive Wellness Initiative (CWI). The CWI was developed to encourage Plan members to make healthier lifesytle choices. It will provide support to Plan members by assisting them to quit using tobacco and to maintain a healthy weight. Benefit changes enacted by the General Assemby are anticipated to save $135.7 million in fiscal year 2010. The General Assemby also added various provisions governing the oversight and monitoring of the State Health Plan, including a mandate to conduct an independent comprehensive audit of the State Health Plan and a separate provision to establish a "Blue Ribbon Task Force." The task force will study and make recommendations regarding Plan governance, the types of benefits and health plans offered, and the affordability of dependent coverage.

In addition to addressing key legislative changes, the Plan increased its health coaching capacity to address chronic disease management and increase program return on investment; implemented a worksite wellness program to engage public school employees in healthly lifestyle behaviors; and implemented several pharmacy programs to offer more affordable generic drugs, increase adherence, and reduce Plan costs.

State Contributions to the Pension Fund

The current economic climate has greatly contributed to a loss of more than 14% in fiscal year 2009 for the North Carolina Retirement Systems. Funding the retirement system is a shared responsibility among employees, employers, and investment earnings. For the past several years, investment earnings of the Teachers' and State Employees' Retirement System (TSERS) have accounted for 77% of pension funding. Investment earnings were high enough in recent years to allow the General Assembly to significantly reduce its annual contribution to the TSERS below the normal rate of 6.3% of payroll. This is the state's match to the employee contribution of 6%, which is automatically deducted from their monthly paycheck. Due to investment losses, in order to fully-fund TSERS benefits, the General Assembly will need to increase its contribution to the TSERS back to above the normal contribution amount, roughly $684 million, in the second year of the biennium.

Expansion of Investment Authority

Legislation was recently passed that provides the investment team within the Department of State Treasurer (Department) the flexibility and tools to increase portfolio return and better manage risk. This expansion of the investment authority allows for 5% of the portfolio to be invested in credit opportunities. Currently, credit investments are classified under fixed income or alternative asset classes. Non-investment grade securities are now also allowed. Additionally, 5% of the portfolio can be invested in inflation resistant assets such as commodities, timber, real estate, and treasury inflation protected securities. Currently, there is authority to invest in these assets, but they fall under real estate, fixed income, and alternatives and are not a focused strategy. The third allowance is to invest in Exchange Traded Funds, a more efficient way to execute stock trades. The Department can manage passive stock funds (indexes) in-house in order to save costs and gain market knowledge. Currently, all stock management is outsourced. Finally, this change adds a liquidity requirement to the investment team's selection of investments. The requirement is designed to ensure that funds are available to meet the cash needs of the retirement system. This expansion will also make it possible for investments to produce the expected return that can meet the actuarial assumed return of 7.25% for the State's pension plans.

Escheats Fund

Interest earned on investments of the Escheats Fund (Fund) underwrites college scholarships. Over time, the number and size of programs dependent on the Fund grew and now the State is using the Fund's principal to meet obligations. At the current rate of withdrawal, the Fund will have a negative balance by fiscal year 2012.

The Fund consists of a variety of assets. Though most can be liquidated, the State cannot do so without realizing a significant loss to the portfolio. The State is under contractual obligations that require that certain funds may not be redeemed nor liquidated before their term limits. There are still several years remaining before the end of the respective terms, and the State is contractually obligated to meet these commitments.

Federal Recovery Funds

The State expects to receive additional federal funds under the American .Recovery and Reinvestment Act of 2009. Currently, the General Fund budget for 2009-10 includes $1.375 billion of federal recovery funds and the 2010-11 budget includes $1.02 billion. The State also expects to receive $729.27 million of federal recovery funds in fiscal years subsequent to 2008-09 for highway infrastructure and $24.97 million for public transportation initiatives.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the State's finances and to demonstrate the State's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the North Carolina Office of the State Controller, Accounting and Financial Reporting Section, 1410 Mail Service Center, Raleigh, N.C. 27699-1410. In addition, this financial report is available on the Office of the State Controller's internet home page at http://www.osc.nc.gov/financial/financial.html .

Basic Financial Statements

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

STATEMENT OF NET ASSETS

June 30, 2009 — Exhibit A-1

(Dollars in Thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Assets				
Cash and cash equivalents (Note 3)	$ 3,623,544	$ 392,748	$ 4,016,292	$ 1,914,785
Investments (Note 3)	304,264	66,462	370,726	1,686,260
Securities lending collateral (Note 3)	2,022,341	172,199	2,194,540	—
Receivables, net (Note 4)	2,468,844	475,929	2,944,773	956,602
Due from component units (Note 18)	34,143	—	34,143	19,692
Due from primary government (Note 18)	—	—	—	67,352
Internal balances	3,810	(3,810)	—	—
Inventories	192,736	822	193,558	96,405
Prepaid items	2,070	4,393	6,463	18,015
Advances to component units	36,716	—	36,716	—
Notes receivable, net (Note 4)	335,166	718,449	1,053,615	5,656,052
Investment in joint venture	—	—	—	9,399
Deferred charges	—	—	—	38,339
Securities held in trust	52,899	—	52,899	—
Pension assets (Note 11)	3,418	—	3,418	—
Restricted/designated cash and cash equivalents (Note 3)	308,090	271	308,361	1,836,478
Restricted investments (Note 3)	660,928	2,134	663,062	3,929,794
Restricted due from primary government (Note 18)	—	—	—	105,778
Restricted due from component units (Note 18)	—	—	—	1,528
Capital assets-nondepreciable (Note 5)	13,352,263	3,984	13,356,247	2,243,923
Capital assets-depreciable, net (Note 5)	20,930,848	26,628	20,957,476	9,426,056
Total Assets	44,332,080	1,860,209	46,192,289	28,006,458
Liabilities				
Accounts payable and accrued liabilities	1,664,221	77,537	1,741,758	676,770
Medical claims payable	972,070	—	972,070	3,985
Unemployment benefits payable	—	20,894	20,894	—
Tax refunds payable	1,435,061	—	1,435,061	—
Obligations under securities lending	2,022,341	172,199	2,194,540	—
Interest payable	81,113	—	81,113	80,997
Short-term debt (Note 6)	—	728,773	728,773	189,991
Due to component units (Note 18)	173,130	—	173,130	21,220
Due to primary government (Note 18)	—	—	—	34,143
Unearned revenue	368,156	23,743	391,899	165,591
Advance from primary government	—	—	—	36,716
Deposits payable	243	17	260	11,503
Funds held for others	118,669	—	118,669	1,159,455
Long-term liabilities (Note 7):				
Due within one year	541,853	510	542,363	989,335
Due in more than one year	8,149,331	4,931	8,154,262	8,219,396
Total Liabilities	15,526,188	1,028,604	16,554,792	11,589,102
Net Assets				
Invested in capital assets, net of related debt	32,348,957	30,612	32,379,569	8,276,510
Restricted for:				
Nonexpendable:				
Environment and natural resources	71,865	—	71,865	—
Higher education	563	—	563	1,586,446
Expendable:				
Higher education	495,348	—	495,348	2,641,581
Health and human services	11,703	—	11,703	3,281
Economic development	14,569	—	14,569	831,275
Environment and natural resources	25,206	—	25,206	—
Public safety, corrections, and regulation	15,381	—	15,381	—
Transportation	10,912	—	10,912	25,000
EPA revolving loan	—	1,001,208	1,001,208	—
Other purposes	69,999	2,405	72,404	—
Unrestricted	(4,258,611)	(202,620)	(4,461,231)	3,053,263
Total Net Assets	$ 28,805,892	$ 831,605	$ 29,637,497	$ 16,417,356

The accompanying Notes to the Financial Statements are an integral part of this statement.

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STATEMENT OF ACTIVITIES

For the Fiscal Year Ended June 30, 2009
(Dollars in Thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue
Primary Government:					
Governmental Activities:					
General government	$ 1,329,539	$ 329,551	$ 41,345	$ 12,353	$ (946,290)
Primary and secondary education	10,098,851	11,684	1,291,751	—	(8,795,416)
Higher education	3,951,862	415	146,936	—	(3,804,511)
Health and human services	16,179,227	298,525	11,633,728	—	(4,246,974)
Economic development	637,876	30,154	275,629	—	(332,093)
Environment and natural resources	722,722	179,099	117,236	75,767	(350,620)
Public safety, corrections, and regulation	2,742,952	530,449	347,679	11,337	(1,853,487)
Transportation	1,970,408	740,353	254,674	934,175	(41,206)
Agriculture	110,314	17,043	14,099	2,110	(77,062)
Interest on long-term debt	289,211	—	—	—	(289,211)
Total Governmental Activities	38,032,962	2,137,273	14,123,077	1,035,742	(20,736,870)
Business-type Activities:					
Unemployment Compensation	3,255,448	1,076,294	1,049,456	—	(1,129,698)
N.C. State Lottery	877,403	1,288,102	4,251	—	414,950
EPA Revolving Loan	7,868	17,370	60,537	—	70,039
Regulatory commissions	37,644	33,982	765	—	(2,897)
Insurance programs	14,970	17,208	5,696	—	7,934
North Carolina State Fair	14,053	12,520	428	82	(1,023)
Other business-type activities	6,583	6,545	(397)	43	(392)
Total Business-type Activities	4,213,969	2,452,021	1,120,736	125	(641,087)
Total Primary Government	$ 42,246,931	$ 4,589,294	$ 15,243,813	$ 1,035,867	$ (21,377,957)
Component Units:					
The Golden LEAF, Inc.	$ 30,607	$ 51	$ (141,583)	$ —	$ (172,139)
University of North Carolina System	8,245,139	4,829,138	107,083	199,672	(3,109,246)
Community Colleges	1,810,953	275,348	613,336	213,156	(709,113)
N.C. Housing Finance Agency	296,266	267,757	38,892	—	10,383
State Education Assistance Authority	446,729	138,792	252,091	—	(55,846)
Other component units	254,100	54,701	34,026	51,560	(113,813)
Total Component Units	$ 11,083,794	$ 5,565,787	$ 903,845	$ 464,388	$ (4,149,774)

The accompanying Notes to the Financial Statements are an integral part of this statement.

STATEMENT OF ACTIVITIES

For the Fiscal Year Ended June 30, 2009 *Exhibit A-2*

(Dollars in Thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Changes in Net Assets:				
Net (expense) revenue	$ (20,736,870)	$ (641,087)	$ (21,377,957)	$ (4,149,774)
General Revenues:				
Taxes:				
Individual income tax	8,661,565	—	8,661,565	—
Corporate income tax	997,206	—	997,206	—
Sales and use tax	4,911,656	—	4,911,656	—
Gasoline tax	1,523,496	—	1,523,496	—
Franchise tax	799,113	—	799,113	—
Highway use tax	440,749	—	440,749	—
Insurance tax	500,438	—	500,438	—
Beverage tax	263,553	—	263,553	—
Inheritance tax	103,811	—	103,811	—
Tobacco products tax	242,071	—	242,071	—
Other taxes	316,819	—	316,819	—
Tobacco settlement	175,838	—	175,838	—
Unrestricted investment earnings	106,738	—	106,738	—
State aid	—	—	—	3,651,172
Miscellaneous	66,500	—	66,500	2,050
Contributions to permanent funds	3,248	—	3,248	—
Contributions to endowments	—	—	—	83,897
Transfers	423,608	(423,608)	—	—
Total general revenues, contributions, and transfers	19,536,409	(423,608)	19,112,801	3,737,119
Change in net assets	(1,200,461)	(1,064,695)	(2,265,156)	(412,655)
Net assets — July 1, as restated (Note 23)	30,006,353	1,896,300	31,902,653	16,830,011
Net assets — June 30	$ 28,805,892	$ 831,605	$ 29,637,497	$ 16,417,356

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FUND FINANCIAL STATEMENTS

BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2009 *Exhibit B-1*

(Dollars in Thousands)

	General Fund	Highway Fund	Highway Trust Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents (Note 3)	$ 1,145,276	$ 921,814	$ 126	$ 1,453,230	$ 3,520,446
Investments (Note 3)	2,325	—	—	280,787	283,112
Securities lending collateral (Note 3)	1,129,736	334,388	16,384	522,698	2,003,206
Receivables, net: (Note 4)					
Taxes receivable	1,046,243	107,115	37,443	2,217	1,193,018
Accounts receivable	313,446	7,404	109	27,921	348,880
Intergovernmental receivable	852,586	38,121	2,726	5,934	899,367
Interest receivable	4,415	1,511	33	4,299	10,258
Other receivables	—	3,093	—	—	3,093
Due from other funds (Note 9)	67	152,107	—	31,287	183,461
Due from component units (Note 18)	—	—	—	33,168	33,168
Inventories	69,596	81,631	—	41,356	192,583
Advances to component units	—	—	14,974	21,742	36,716
Notes receivable, net (Note 4)	22,828	1,030	88	311,220	335,166
Securities held in trust	424	9,155	—	43,320	52,899
Restricted/designated cash and cash equivalents (Note 3)	360	—	—	307,730	308,090
Restricted investments (Note 3)	—	51,988	—	608,940	660,928
Total Assets	$ 4,587,302	$ 1,709,357	$ 71,883	$ 3,695,849	$ 10,064,391
Liabilities and Fund Balances					
Liabilities:					
Accounts payable and accrued liabilities:					
Accounts payable	$ 126,351	$ 167,284	$ 26,957	$ 77,035	$ 397,627
Accrued payroll	3,363	36,463	—	591	40,417
Intergovernmental payable	933,362	96,117	43,782	50,500	1,123,761
Claims payable	—	—	—	28,516	28,516
Medical claims payable	972,070	—	—	—	972,070
Tax refunds payable	1,426,309	6,564	2,188	—	1,435,061
Obligations under securities lending	1,129,736	334,388	16,384	522,698	2,003,206
Due to fiduciary funds (Note 9)	62,323	—	—	47	62,370
Due to other funds (Note 9)	34,442	7,401	152,107	12,585	206,535
Due to component units (Note 18)	55,986	—	—	117,144	173,130
Deferred revenue	566,870	16,976	94	29,606	613,546
Deposits payable	—	—	—	243	243
Funds held for others	52,354	22,932	—	43,383	118,669
Total Liabilities	5,363,166	688,125	241,512	882,348	7,175,151
Fund Balances:					
Reserved (Note 10)	189,288	179,516	15,062	1,016,604	1,400,470
Unreserved/Undesignated, reported in:					
General Fund	(965,152)	—	—	—	(965,152)
Special Revenue Funds	—	841,716	(184,691)	1,796,210	2,453,235
Capital Projects Funds	—	—	—	(2,738)	(2,738)
Permanent Funds	—	—	—	3,425	3,425
Total Fund Balance	(775,864)	1,021,232	(169,629)	2,813,501	2,889,240
Total Liabilities and Fund Balances	$ 4,587,302	$ 1,709,357	$ 71,883	$ 3,695,849	$ 10,064,391

The accompanying Notes to the Financial Statements are an integral part of this statement.

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS

June 30, 2009 *Exhibit B-1a*

(Dollars in Thousands)

Total fund balances - governmental funds (see Exhibit B-1)		$ 2,889,240
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
- **Capital assets** used in governmental activities are not financial resources and, therefore, are not reported in the funds (see Note 5). These consist of:		
Cost of capital assets (excluding internal service funds)	$ 34,679,524	
Less: Accumulated depreciation (excluding internal service funds)	(505,640)	
Net capital assets		34,173,884
- **Some assets**, such as receivables, are not available soon enough to pay for current period expenditures and thus, are offset by deferred revenue in the governmental funds.		249,189
- **Pension assets**, resulting from contributions in excess of the annual required contribution are not financial resources and, therefore, are not reported in the funds (see Note 11).		3,418
- **Long-term debt instruments**, such as bonds and notes payable, are not due and payable in the current period and, therefore, the outstanding balances are not reported in the funds (see Note 7). Also, unamortized debt premiums, discounts, and losses on refundings are reported in the Statement of Net Assets but are not reported in the funds. These balances consist of:		
General obligation bonds payable	(5,169,265)	
Lease-purchase revenue bonds payable	(225,045)	
Certificates of participation payable	(919,585)	
Limited obligation bonds payable	(600,000)	
GARVEE bonds payable	(241,820)	
Unamortized debt premiums (to be amortized as interest expense)	(275,131)	
Less: Unamortized loss on refunding (to be amortized as interest expense)	63,011	
Notes payable	(27,663)	
Capital leases payable	(23,833)	
Net long-term debt		(7,419,331)
- **Other liabilities** not due and payable in the current period and, therefore, not reported in the funds (see Note 7 as applicable) consist of:		
Accrued interest payable	(81,113)	
Compensated absences (excluding internal service funds)	(418,450)	
Obligations for workers' compensation	(92,266)	
Arbitrage rebate payable	(911)	
Deferred death benefit payable	(530)	
Pollution remediation payable	(6,688)	
Court judgment payable	(731,703)	
Cost settlement payable	(15,000)	
Net pension obligation	(474)	
Total other liabilities		(1,347,135)
- **Internal service funds** are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets (see Exhibit B-3).		256,627
Total net assets - governmental activities (see Exhibit A-1)		$ 28,805,892

The accompanying Notes to the Financial Statements are an integral part of this statement.

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS

For the Fiscal Year Ended June 30, 2009 *Exhibit B-2*

(Dollars in Thousands)

	General Fund	Highway Fund	Highway Trust Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes:					
Individual income tax	$ 8,658,635	$ —	$ —	$ 2,930	$ 8,661,565
Corporate income tax	941,509	—	—	56,236	997,745
Sales and use tax	4,872,318	—	—	32,320	4,904,638
Gasoline tax	—	1,117,187	378,898	27,359	1,523,444
Franchise tax	797,079	—	—	—	797,079
Highway use tax	—	—	440,749	—	440,749
Insurance tax	483,756	—	—	16,682	500,438
Beverage tax	262,678	—	—	875	263,553
Inheritance tax	104,266	—	—	—	104,266
Tobacco products tax	242,071	—	—	—	242,071
Other taxes	163,169	—	—	153,957	317,126
Federal funds	11,969,276	1,113,003	—	305,332	13,387,611
Local funds	304,270	28,968	327	15,738	349,303
Investment earnings	128,233	30,586	1,101	53,094	213,014
Interest earnings on loans	257	6	—	4,726	4,989
Sales and services	105,068	1,058	—	172,899	279,025
Rental and lease of property	8,856	9,878	2,285	4,379	25,398
Fees, licenses, and fines	621,435	633,804	86,204	262,848	1,604,291
Tobacco settlement	175,187	—	—	—	175,187
Contributions, gifts, and grants	15,583	8,192	314	113,448	137,537
Funds escheated	—	—	—	27,399	27,399
Federal recovery funds	1,155,174	6,256	—	3,244	1,164,674
Miscellaneous	158,836	7,621	2,120	16,262	184,839
Total revenues	31,167,656	2,956,559	911,998	1,269,728	36,305,941
Expenditures:					
Current:					
General government	1,232,720	—	—	65,385	1,298,105
Primary and secondary education	9,678,610	—	—	433,187	10,111,797
Higher education	3,570,067	—	—	381,622	3,951,689
Health and human services	16,118,833	—	—	103,216	16,222,049
Economic development	329,027	—	—	306,823	635,850
Environment and natural resources	290,614	—	—	408,659	699,273
Public safety, corrections, and regulation	2,190,098	—	—	491,735	2,681,833
Transportation	—	2,626,486	640,008	—	3,266,494
Agriculture	87,570	—	—	23,936	111,506
Capital outlay	—	—	—	369,326	369,326
Debt service:					
Principal retirement	372,702	45,895	54,090	1,636	474,323
Interest and fees	280,253	13,701	31,527	806	326,287
Debt issuance costs	6	51	6	2,968	3,031
Total expenditures	34,150,500	2,686,133	725,631	2,589,299	40,151,563
Excess revenues over (under) expenditures	(2,982,844)	270,426	186,367	(1,319,571)	(3,845,622)
Other Financing Sources (Uses):					
Special indebtedness issued	—	—	—	600,000	600,000
Other debt issued	463	—	—	1,070	1,533
Premium on debt issued	—	—	—	31,371	31,371
Sale of capital assets	1,401	7,192	252	4,234	13,079
Insurance recoveries	454	7,453	—	661	8,568
Transfers in (Note 9)	1,056,655	50,330	—	1,620,756	2,727,741
Transfers out (Note 9)	(530,132)	(290,054)	(197,495)	(1,291,391)	(2,309,072)
Total other financing sources (uses)	528,841	(225,079)	(197,243)	966,701	1,073,220
Net change in fund balances	(2,454,003)	45,347	(10,876)	(352,870)	(2,772,402)
Fund balances — July 1, as restated (Note 23)	1,678,139	975,885	(158,753)	3,166,371	5,661,642
Fund balances — June 30	$ (775,864)	$ 1,021,232	$ (169,629)	$ 2,813,501	$ 2,889,240

The accompanying Notes to the Financial Statements are an integral part of this statement.

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the Fiscal Year Ended June 30, 2009 *Exhibit B-2a*

(Dollars in Thousands)

Net change in fund balances - total governmental funds (see Exhibit B-2)		$ (2,772,402)
Amounts reported for governmental activities in the Statement of Activities are different because:		
- **Capital outlays** are reported as expenditures in governmental funds. However, in the Statement of Activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:		
Capital outlays (including construction-in-progress)	$ 2,316,854	
Less: Depreciation expense (excluding internal service funds)	(645,008)	
Net capital outlay adjustment		1,671,846
- **Proceeds from the sale of capital assets** increase financial resources in the funds, whereas in the Statement of Activities only the gain or loss on the sale is reported. This adjustment reduces the proceeds by the book value of the capital assets sold.		(65,858)
- **Donations of capital assets** do not appear in the governmental funds because they are not financial resources, but increase net assets in the Statement of Activities.		8,500
- **Long-term debt** proceeds provide current financial resources to governmental funds, while the repayment of the related debt principal consumes those financial resources. These transactions, however, have no effect on net assets. Also, governmental funds report the effect of premiums and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. In the current period, these amounts consist of:		
Debt issued or incurred:		
Bonds and similar debt issued	(601,533)	
Premiums on debt issued	(31,371)	
Principal repayments:		
Bonds, notes, and similar debt	473,129	
Capital leases	1,194	
Net debt adjustments		(158,581)
- **Some revenues** in the Statement of Activities do not provide current financial resources and, therefore, are deferred in the funds. Also, revenues related to prior periods that became available during the current period are reported in the funds but are eliminated in the Statement of Activities. This amount is the net adjustment.		40,104
- **Some expenses** reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not recognized in the funds. Also, some payments related to prior periods are recognized in the funds but are eliminated in the Statement of Activities. In the current period, the net adjustments consist of:		
Accrued interest	7,602	
Compensated absences (excluding internal service funds)	(20,126)	
Workers' compensation	(3,517)	
Arbitrage rebate	2,114	
Deferred death benefit	35	
Court judgment	18,183	
Cost settlement	20,300	
Net pension obligation	(61)	
Pollution remediation	(219)	
Amortization of deferred amounts	29,474	
Net expense accruals		53,785
- **Internal service funds** are used by management to charge the costs of certain activities to individual funds. The net revenues of internal service funds are included with governmental activities in the Statement of Activities (see Exhibit B-4).		22,145
Change in net assets - governmental activities (see Exhibit A-2)		$ (1,200,461)

The accompanying Notes to the Financial Statements are an integral part of this statement.

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

June 30, 2009

(Dollars in Thousands)

	Business-type Activities — Enterprise Funds				
	Unemployment Compensation Fund	EPA Revolving Loan Fund	N.C. State Lottery Fund	Other Enterprise Funds	Total Enterprise Funds
Assets					
Current Assets:					
Cash and cash equivalents (Note 3)	$ 32,169	$ 279,244	$ 33,243	$ 48,092	$ 392,748
Investments (Note 3)	—	—	—	63,335	63,335
Securities lending collateral (Note 3)	9,318	105,953	22,374	34,554	172,199
Receivables: (Note 4)					
Accounts receivable, net	70,996	—	4,919	4,519	80,434
Intergovernmental receivable	34,451	54	—	—	34,505
Interest receivable	36	3,975	138	27	4,176
Premiums receivable	—	—	—	1,423	1,423
Contributions receivable, net	298,049	—	—	—	298,049
Notes receivable, net (Note 4)	—	40,451	—	—	40,451
Due from fiduciary funds (Note 9)	—	—	—	—	—
Due from other funds (Note 9)	3,000	—	—	—	3,000
Due from component units (Note 18)	—	—	—	—	—
Inventories	—	—	294	528	822
Prepaid items	—	—	—	4,393	4,393
Restricted/designated cash and cash equivalents (Note 3)	—	—	—	271	271
Total current assets	448,019	429,677	60,968	157,142	1,095,806
Noncurrent Assets:					
Investments (Note 3)	—	—	—	3,127	3,127
Receivables: (Note 4)					
Contributions receivable, net	57,342	—	—	—	57,342
Notes receivable, net (Note 4)	—	677,998	—	—	677,998
Restricted investments (Note 3)	—	—	—	2,134	2,134
Capital assets-nondepreciable (Note 5)	—	—	—	3,984	3,984
Capital assets-depreciable, net (Note 5)	—	78	1,310	25,240	26,628
Total noncurrent assets	57,342	678,076	1,310	34,485	771,213
Total Assets	505,361	1,107,753	62,278	191,627	1,867,019
Liabilities					
Current Liabilities:					
Accounts payable and accrued liabilities:					
Accounts payable	16,291	30	31,611	790	48,722
Accrued payroll	—	1	333	75	409
Intergovernmental payable	12,693	—	10	—	12,703
Claims payable	—	—	—	15,703	15,703
Unemployment benefits payable	20,894	—	—	—	20,894
Obligations under securities lending	9,318	105,953	22,374	34,554	172,199
Due to other funds (Note 9)	75	28	6,625	82	6,810
Unearned revenue	16,078	—	51	7,614	23,743
Deposits payable	—	—	—	17	17
Short-term debt (Note 6)	728,773	—	—	—	728,773
Pollution remediation payable - current	—	—	—	163	163
Compensated absences	—	21	43	283	347
Total current liabilities	804,122	106,033	61,047	59,281	1,030,483
Noncurrent Liabilities:					
Pollution remediation payable	—	—	—	87	87
Compensated absences	—	434	1,231	3,179	4,844
Total noncurrent liabilities	—	434	1,231	3,266	4,931
Total Liabilities	804,122	106,467	62,278	62,547	1,035,414
Net Assets					
Invested in capital assets	—	78	1,310	29,224	30,612
Restricted for:					
Capital outlay	—	—	—	2,405	2,405
Unrestricted	(298,761)	1,001,208	(1,310)	97,451	798,588
Total Net Assets	$ (298,761)	$ 1,001,286	$ —	$ 129,080	$ 831,605

The accompanying Notes to the Financial Statements are an integral part of this statement.

Exhibit B-3

Governmental Activities — Internal Service Funds
$ 103,098
21,152
19,135
11,387
—
41
2,797
—
—
3
28,440
975
153
2,070
—
189,251
—
—
—
—
6,524
102,703
109,227
298,478
8,923
517
—
2,090
—
19,135
1,556
3,799
—
—
—
441
36,461
—
5,390
5,390
41,851
109,227
—
147,400
$ 256,627

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS PROPRIETARY FUNDS

For the Fiscal Year Ended June 30, 2009

(Dollars in Thousands)

	Business-type Activities — Enterprise Funds				
	Unemployment Compensation Fund	EPA Revolving Loan Fund	N.C. State Lottery Fund	Other Enterprise Funds	Total Enterprise Funds
Operating Revenues:					
Employer unemployment contributions	$ 1,013,405	$ —	$ —	$ —	$ 1,013,405
Federal funds	62,889	—	—	—	62,889
Sales and services	—	1,696	1,283,440	1,149	1,286,285
Interest earnings on loans	—	15,674	—	—	15,674
Rental and lease earnings	—	—	—	6,147	6,147
Fees, licenses, and fines	—	—	4,589	45,050	49,639
Insurance premiums	—	—	—	17,208	17,208
Miscellaneous	—	—	73	701	774
Total operating revenues	1,076,294	17,370	1,288,102	70,255	2,452,021
Operating Expenses:					
Personal services	—	4,316	14,673	34,113	53,102
Supplies and materials	—	32	133	1,408	1,573
Services	—	1,307	126,862	17,679	145,848
Cost of goods sold	—	—	—	370	370
Depreciation/amortization	—	20	544	1,355	1,919
Lottery prizes	—	—	731,690	—	731,690
Claims	—	—	—	8,667	8,667
Unemployment benefits	3,253,159	—	—	19	3,253,178
Insurance and bonding	—	1	7	4,868	4,876
Other	—	569	2,859	4,308	7,736
Total operating expenses	3,253,159	6,245	876,768	72,787	4,208,959
Operating income (loss)	(2,176,865)	11,125	411,334	(2,532)	(1,756,938)
Nonoperating Revenues (Expenses):					
Noncapital grants	851,175	49,602	—	225	901,002
Noncapital gifts	—	—	—	485	485
Investment earnings	12,209	10,696	4,243	5,755	32,903
Insurance recoveries	—	—	—	—	—
Gain (loss) on sale of equipment	—	(7)	—	—	(7)
Federal recovery funds	186,072	239	—	—	186,311
Miscellaneous	(2,289)	(1,616)	(627)	(436)	(4,968)
Total nonoperating revenues (expenses)	1,047,167	58,914	3,616	6,029	1,115,726
Income (loss) before contributions and transfers	(1,129,698)	70,039	414,950	3,497	(641,212)
Capital contributions	—	—	—	125	125
Transfers in (Note 9)	—	8,684	—	3,116	11,800
Transfers out (Note 9)	(16,753)	(304)	(414,950)	(3,401)	(435,408)
Change in net assets	(1,146,451)	78,419	—	3,337	(1,064,695)
Net assets — July 1, as restated (Note 23)	847,690	922,867	—	125,743	1,896,300
Net assets — June 30	$ (298,761)	$ 1,001,286	$ —	$ 129,080	$ 831,605

The accompanying Notes to the Financial Statements are an integral part of this statement.

Exhibit B-4

Governmental Activities — Internal Service Funds
$ —
—
306,071
—
23
42
20,547
330
327,013
67,990
18,495
126,787
643
26,553
—
1,785
—
16,958
54,379
313,590
13,423
—
—
3,190
158
393
—
(326)
3,415
16,838
368
5,475
(536)
22,145
234,482
$ 256,627

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

For the Fiscal Year Ended June 30, 2009

(Dollars in Thousands)

	Business-type Activities — Enterprise Funds				
	Unemployment Compensation Fund	EPA Revolving Loan Fund	N.C. State Lottery Fund	Other Enterprise Funds	Total Enterprise Funds
Cash Flows From Operating Activities:					
Receipts from customers	$ 1,016,859	$ 1,696	$ 1,206,590	$ 69,716	$ 2,294,861
Receipts from federal agencies	28,438	—	—	—	28,438
Receipts from other funds	—	—	—	—	—
Payments to suppliers	—	(1,457)	(37,689)	(29,244)	(68,390)
Payments to employees	—	(4,240)	(14,623)	(33,848)	(52,711)
Payments for prizes, benefits, and claims	(3,276,321)	—	(751,430)	(8,299)	(4,036,050)
Payments to other funds	—	—	—	—	—
Other receipts (payments)	(2,042)	(543)	8	(707)	(3,284)
Net cash flows provided (used) by operating activities	(2,233,066)	(4,544)	402,856	(2,382)	(1,837,136)
Cash Provided From (Used For) Noncapital Financing Activities:					
Grant receipts (refunds)	851,175	49,683	—	225	901,083
Federal recovery funds	186,072	234	—	—	186,306
Proceeds from short-term borrowing	1,080,851	—	—	—	1,080,851
Principal payments from short-term borrowing	(352,078)	—	—	—	(352,078)
Transfers from other funds	—	8,684	—	3,116	11,800
Transfers to other funds	(16,753)	(304)	(411,889)	(3,401)	(432,347)
Gifts	—	—	—	485	485
Total cash provided from (used for) noncapital financing activities	1,749,267	58,297	(411,889)	425	1,396,100
Cash Provided From (Used For) Capital and Related Financing Activities:					
Acquisition and construction of capital assets	—	(22)	(367)	(8)	(397)
Proceeds from the sale of capital assets	—	—	—	—	—
Capital contributions	—	—	—	43	43
Insurance recoveries	—	—	—	—	—
Total cash provided from (used for) capital and related financing activities	—	(22)	(367)	35	(354)
Cash Provided From (Used For) Investment Activities:					
Purchase of non-State Treasurer investments	—	—	—	(1,310)	(1,310)
Purchase into State Treasurer investment pool	—	(991)	—	(5,000)	(5,991)
Redemptions from State Treasurer investment pool	—	3,234	—	—	3,234
Loan issuances	—	(106,960)	—	—	(106,960)
Loan repayments — interest	—	14,951	—	—	14,951
Loan repayments — principal	—	43,959	—	—	43,959
Investment earnings	12,063	9,649	3,888	1,392	26,992
Total cash provided from (used for) investment activities	12,063	(36,158)	3,888	(4,918)	(25,125)
Net increase (decrease) in cash and cash equivalents	(471,736)	17,573	(5,512)	(6,840)	(466,515)
Cash and cash equivalents at July 1	503,905	261,671	38,755	55,203	859,534
Cash and cash equivalents at June 30	$ 32,169	$ 279,244	$ 33,243	$ 48,363	$ 393,019

The accompanying Notes to the Financial Statements are an integral part of this statement.

Exhibit B-5

Governmental Activities — Internal Service Funds
$ 43,497
—
276,064
(185,537)
(67,427)
(6,392)
(21,365)
(1,468)
37,372
—
—
—
—
5,475
(536)
—
4,939
(20,897)
1,889
—
158
(18,850)
—
—
—
—
—
—
1,421
1,421
24,882
78,216
$ 103,098

Continued

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

For the Fiscal Year Ended June 30, 2009

(Dollars in Thousands)

	Business-type Activities — Enterprise Funds				
	Unemployment Compensation Fund	EPA Revolving Loan Fund	N.C. State Lottery Fund	Other Enterprise Funds	Total Enterprise Funds
Reconciliation of Operating Income to Net Cash Provided From (Used For) Operating Activities:					
Operating income (loss)	$ (2,176,865)	$ 11,125	$ 411,334	$ (2,532)	$ (1,756,938)
Adjustments to reconcile operating income to net cash flows from operating activities:					
Depreciation/amortization	—	20	544	1,355	1,919
Interest earnings on loans classified as investing activity	—	(15,674)	—	—	(15,674)
Restatements and adjustments	—	—	—	(17)	(17)
Nonoperating miscellaneous income (expense)	(2,042)	—	8	27	(2,007)
(Increases) decreases in assets:					
Receivables	(73,796)	—	8,809	(18)	(65,005)
Due from other funds	25	—	—	—	25
Due from fiduciary funds	—	—	—	—	—
Due from component units	—	—	—	—	—
Inventories	—	—	616	(30)	586
Prepaid items	—	—	—	(1,731)	(1,731)
Increases (decreases) in liabilities:					
Accounts payable and accrued liabilities	7,546	(87)	(18,621)	8	(11,154)
Due to other funds	(34)	(2)	—	41	5
Unemployment benefits payable	8,678	—	—	—	8,678
Pollution remediation payable	—	—	—	250	250
Compensated absences	—	74	122	314	510
Unearned revenue	3,422	—	44	(64)	3,402
Deposits payable	—	—	—	15	15
Total cash provided from (used for) operations	$ (2,233,066)	$ (4,544)	$ 402,856	$ (2,382)	$ (1,837,136)
Noncash Investing, Capital, and Financing Activities:					
Noncash distributions from the State Treasurer Long-Term Investment Portfolio and/or other agents	$ —	$ —	$ —	$ 3,491	$ 3,491
Donated or transferred assets (fair value)	—	—	—	82	82
Assets acquired through the assumption of a liability	9,318	105,953	22,374	34,554	172,199
Change in fair value of investments	—	—	—	1,573	1,573

Exhibit B-5

Governmental Activities — Internal Service Funds
$ 13,423
26,553
—
(112)
1
1,489
(7,769)
4
136
62
4,103
(206)
(57)
—
—
906
(1,161)
—
$ 37,372
$ 1,303
368
19,135
209

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

June 30, 2009 *Exhibit B-6*

(Dollars in Thousands)

	Pension and Other Employee Benefit Trust Funds	Investment Trust Fund	Private-Purpose Trust Funds	Agency Funds
Assets				
Cash and cash equivalents (Note 3)	$ 864,124	$ 100,977	$ 97,387	$ 3,405,615
Investments (Note 3):				
U.S. government and agency securities	530,182	—	1,684	—
Mortgage pass throughs	53,116	—	—	—
Collateralized mortgage obligations	512,068	—	—	—
Government bonds	10,379	—	—	—
Asset-backed securities	25,455	—	—	—
Repurchase agreements	6,700	—	—	—
Annuity contracts	23,780	—	—	—
Corporate bonds	297,187	—	—	6,552
Corporate stocks	—	—	—	1,010
Certificates of deposit	—	—	63,214	392
Mutual funds	2,646,551	—	—	—
State Treasurer investment pool	60,883,563	495,611	—	45,743
Securities lending collateral (Note 3)	9,406,249	177,896	238	1,096,257
Receivables:				
Taxes receivable	—	—	—	104,200
Accounts receivable	87,562	—	—	15,646
Intergovernmental receivable	25,818	—	—	—
Interest receivable	13,846	—	—	—
Contributions receivable	119,792	—	—	—
Due from other funds (Note 9)	46,505	—	—	15,865
Due from component units	8,525	—	—	—
Notes receivable	187,220	—	—	—
Sureties	—	—	880,026	84,932
Capital assets-depreciable, net	87	—	—	—
Total Assets	75,748,709	774,484	1,042,549	4,776,212
Liabilities				
Accounts payable and accrued liabilities:				
Accounts payable	109,264	3,439	—	661
Intergovernmental payable	—	—	—	501,219
Benefits payable	4,786	—	—	—
Medical claims payable	258,150	—	—	—
Obligations under securities lending	9,406,249	177,896	238	1,096,257
Due to other funds (Note 9)	3	—	—	—
Unearned revenue	60,489	—	—	—
Deposits payable	—	—	—	2,692
Funds held for others	—	—	—	3,175,383
Notes payable	9,344	—	—	—
Compensated absences	204	—	—	—
Total Liabilities	9,848,489	181,335	238	4,776,212
Net Assets				
Held in trust for:				
Employees' pension and other benefits	65,900,220	—	—	—
Pool participants	—	593,149	—	—
Individuals, organizations, and other governments	—	—	1,042,311	—
Total Net Assets	$ 65,900,220	$ 593,149	$ 1,042,311	$ —

The accompanying Notes to the Financial Statements are an integral part of this statement.

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

For the Fiscal Year Ended June 30, 2009 *Exhibit B-7*

(Dollars in Thousands)

	Pension and Other Employee Benefit Trust Funds	Investment Trust Fund	Private-Purpose Trust Funds
Additions:			
Contributions:			
Employer	$ 3,540,757	$ —	$ —
Members	1,995,939	—	—
Trustee deposits	—	—	128,197
Other contributions	344,467	—	—
Total contributions	5,881,163	—	128,197
Investment income:			
Investment earnings (loss)	(10,955,408)	(1,162)	3,293
Less investment expenses	(397,986)	(3,092)	(4)
Net investment income (loss)	(11,353,394)	(4,254)	3,289
Pool share transactions:			
Reinvestment of dividends	—	(4,254)	—
Net share purchases/(redemptions)	—	73,585	—
Net pool share transactions	—	69,331	—
Other additions:			
Fees, licenses, and fines	4,786	—	—
Miscellaneous	1,641	—	—
Total other additions	6,427	—	—
Total additions	(5,465,804)	65,077	131,486
Deductions:			
Claims and benefits	6,725,281	—	—
Medical insurance premiums	510,719	—	—
Refund of contributions	114,976	—	—
Distributions paid and payable	—	(4,254)	—
Payments in accordance with trust arrangements	—	—	161,069
Administrative expenses	174,742	—	—
Other deductions	252	—	—
Total deductions	7,525,970	(4,254)	161,069
Change in net assets	(12,991,774)	69,331	(29,583)
Net assets — July 1, as restated (Note 23)	78,891,994	523,818	1,071,894
Net assets — June 30	$ 65,900,220	$ 593,149	$ 1,042,311

The accompanying Notes to the Financial Statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

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NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The accompanying government-wide financial statements present the State of North Carolina and its component units. The State of North Carolina, as primary government, consists of all organizations that make up its legal entity. All funds, organizations, agencies, boards, commissions, and authorities that are not legally separate are, for financial reporting purposes, part of the primary government. The primary government has a separately elected governing body (the General Assembly) and the primary government must be both legally separate and fiscally independent. Component units are legally separate entities for which the State is financially accountable. Accountability is defined as the State's substantive appointment of a majority of the component unit's governing board. Furthermore, to be financially accountable, the State must be able to impose its will upon the component unit or there must be a possibility that the component unit may provide specific financial benefits to, or impose specific financial burdens on, the State. Financial accountability also exists when an organization is fiscally dependent upon the State. The State's defined benefit pension plans, deferred compensation plans, and other employee benefit plans, being fiduciary in nature, were not evaluated as potential component units but instead are reported as fiduciary funds.

The State's component units are either blended or discretely presented. The blended component unit is so intertwined with the State that it is, in substance, the same as the State and, therefore, is reported as if it was part of the State primary government. The "Component Units" column in the accompanying financial statements includes the financial data of the State's discretely presented component units. They are combined and reported in a separate column in the government-wide financial statements to emphasize their legal separateness from the State.

Blended Component Unit

The North Carolina Infrastructure Finance Corporation

The North Carolina Infrastructure Finance Corporation (Corporation) was created by the General Assembly and organized as a separate not-for-profit corporation. It is managed by a three-member board appointed by the State Treasurer. The Corporation is authorized to issue tax-exempt debt to finance the acquisition, construction, repair and renovation of State facilities and related infrastructure. The debt obligations are secured by lease-purchase agreements or installment financing contracts with the State, which constitute the imposition of a financial burden on the State. The substance of the financing agreements is that the assets and debt are those of the State (lessee). The Corporation is reported with the State's governmental funds since it provides services entirely to the State.

Discretely Presented Component Units - Major

The Golden LEAF (Long-term Economic Advancement Foundation), Inc.

The Golden LEAF, Inc. (Foundation) is a legally separate not-for-profit corporation ordered to be created by the Consent Decree and Final Judgment in the State of North Carolina vs. Philip Morris, et al. The Foundation was established to receive and distribute 50 percent of the tobacco settlement funds allocated to North Carolina, such funds to be used to provide economic impact assistance to economically affected or tobacco-dependent regions of North Carolina. The Foundation is governed by a 15-member board, all of whom are appointed by either the Governor, President Pro Tempore of the Senate, or the Speaker of the House. The State assigned 50 percent of its share of the settlement to the Foundation, creating a financial benefit/burden relationship.

University of North Carolina System

The Board of Governors of the consolidated University of North Carolina (UNC) System is a legally separate body, composed of 32 members elected by the General Assembly. The Board of Governors establishes system-wide administrative policies while budgetary decisions are exercised at the State level. Within the consolidated System are UNC-General Administration, which is the administrative arm of the Board of Governors; the 16 constituent universities; a constituent high school; and the University of North Carolina Health Care System (UNCHCS). Each of the 16 universities and the high school, in turn, is governed by its own separate board of trustees that is responsible for the operations of that campus only. UNCHCS is governed by a separate board of directors. Funding for the UNC System is accomplished by State appropriations, tuition and fees, sales and services, federal grants, state grants, and private donations and grants.

Also included in the System are the financial data of the universities' significant fund-raising foundations (and similarly affiliated organizations). Although the universities do not control the timing or amount of receipts from their foundations, the majority of resources (or income thereon) that the foundations hold and invest are restricted to the activities of the respective universities by the donors. Because these restricted resources held by the foundations can only be used by, or for the benefit of, the specific universities, the foundations are considered component units of the universities and are included in the universities' financial statements. The foundations are private not-for-profit organizations that report under Financial Accounting Standards Board pronouncements. As such, certain revenue recognition criteria and presentation features are different from that of the Governmental Accounting Standards Board. The foundations' financial statement formats were modified to make them compatible with the universities' financial statement formats.

NOTES TO THE FINANCIAL STATEMENTS

The following constituent institutions comprise the UNC System for financial reporting purposes:

UNC General Administration
Appalachian State University
East Carolina University
Elizabeth City State University
Fayetteville State University
North Carolina Agricultural and Technical State University
North Carolina Central University
North Carolina State University
University of North Carolina at Asheville
University of North Carolina at Chapel Hill
University of North Carolina at Charlotte
University of North Carolina at Greensboro
University of North Carolina at Pembroke
University of North Carolina at Wilmington
University of North Carolina School of the Arts
Western Carolina University
Winston-Salem State University
University of North Carolina Health Care System
North Carolina School of Science and Mathematics

Community Colleges

There are currently 58 community colleges located throughout the State of North Carolina. Each is a separate component unit of the reporting entity and is legally separate. The State does not appoint a voting majority of each community college board of trustees. However, the State is financially accountable for these institutions because the State Board of Community Colleges (the Board) approves the budgeting of state and federal funds, the associated budget revisions, and the selection of the chief administrative officer of each individual community college. The Board is comprised of state officials or their appointees. Each community college is similar in nature and function to all of the others, and the operations of no single community college are considered major in relation to the operations of all community colleges in the system. Therefore, aggregated financial information is presented in this CAFR for all community colleges.

The aggregated financial information for community colleges also includes the financial data of the institutions' significant fund-raising foundations. Although the community colleges do not control the timing or amount of receipts from their foundations, the majority of resources (or income thereon) that the foundations hold and invest are restricted to the activities of the respective community colleges by the donors. Because these restricted resources held by the foundations can only be used by, or for the benefit of, the specific community colleges, the foundations are considered component units of the community colleges and are included in the community colleges' financial statements. The foundations are private not-for-profit organizations that report under Financial Accounting Standards Board pronouncements. As such, certain revenue recognition criteria and presentation features are different from that of the Governmental Accounting Standards Board. The foundations' financial statement formats were modified to make them compatible with the community colleges' financial statement formats.

The following are the State's 58 community colleges:

Alamance Comm. College	Asheville-Buncombe Technical Comm. College
Beaufort County Comm. College	Bladen Comm. College
Blue Ridge Comm. College	Brunswick Comm. College
Caldwell Comm. College and Tech. Institute	Cape Fear Comm. College
Carteret Comm. College	Catawba Valley Comm. College
Central Carolina Comm. College	Central Piedmont Comm. College
Cleveland Comm. College	Coastal Carolina Comm. College
College of The Albemarle	Craven Comm. College
Davidson County Comm. College	Durham Technical Comm. College
Edgecombe Comm. College	Fayetteville Technical Comm. College
Forsyth Technical Comm. College	Gaston College
Guilford Technical Comm. College	Halifax Comm. College
Haywood Comm. College	Isothermal Comm. College
James Sprunt Comm. College	Johnston Comm. College
Lenoir Comm. College	Martin Comm. College
Mayland Comm. College	McDowell Technical Comm. College
Mitchell Comm. College	Montgomery Comm. College
Nash Comm. College	Pamlico Comm. College
Piedmont Comm. College	Pitt Comm. College
Randolph Comm. College	Richmond Comm. College
Roanoke-Chowan Comm. College	Robeson Comm. College
Rockingham Comm. College	Rowan-Cabarrus Comm. College
Sampson Comm. College	Sandhills Comm. College
South Piedmont Comm. College	Southeastern Comm. College
Southwestern Comm. College	Stanly Comm. College
Surry Comm. College	Tri-County Comm. College
Vance-Granville Comm. College	Wake Technical Comm. College
Wayne Comm. College	Western Piedmont Comm. College
Wilkes Comm. College	Wilson Comm. College

North Carolina Housing Finance Agency

The North Carolina Housing Finance Agency (Agency) is a legally separate organization established to administer programs to finance housing opportunities for low and moderate income individuals. The Agency has a 13-member board of directors, with 12 appointed by either the Governor or the General Assembly. The 13th member is elected by the other 12. The Agency's mission is defined in its authorizing statute, which is modified or expanded from time to time by the General Assembly. The General Assembly also appropriates funds that assist the Agency in its mission to finance housing for very low income individuals and those with special needs.

State Education Assistance Authority

The State Education Assistance Authority (Authority) is a legally separate authority created to provide a system of financial assistance, consisting of grants, loans, work-study or other employment, and other aids, to qualified students to obtain an education beyond the high school level by attending public or private educational institutions. The Authority is governed by a seven-member board of directors, all of whom are appointed by the Governor. The State provides program subsidies to the Authority; therefore, a financial benefit/burden relationship exists between the State and the Authority.

NOTES TO THE FINANCIAL STATEMENTS

Discretely Presented Component Units - Other

North Carolina Global TransPark Authority

The North Carolina Global TransPark Authority (Authority) is a legally separate authority created to administer the development of the North Carolina Global TransPark. Of the 20-member governing board, 19 are voting members. Seven of the voting members are appointed by the Governor and six are appointed by the General Assembly. The State has obligated itself to provide significant funding to the Authority; therefore, a financial benefit/burden relationship exists between the State and the Authority. Also included in the Authority are the financial data of its discretely presented component unit, the North Carolina Global TransPark Foundation.

North Carolina State Ports Authority

The North Carolina State Ports Authority (Authority) is a legally separate authority established to operate the State's port facilities in Wilmington and Morehead City. It is governed by an 11-member board, all of whom are appointed by either the Governor or the General Assembly. The State has obligated itself to provide significant funding to the Authority; therefore, a financial benefit/burden relationship exists between the State and the Authority.

North Carolina Railroad Company

The North Carolina Railroad Company (Railroad) is a legally separate, for-profit corporation owned by the State for the purpose of promoting trade, industry, and transportation within North Carolina and advancing the economic interests of the State. The Railroad is governed by a 13 member board, all of whom are elected by shares held by the State. A financial benefit/burden relationship exists between the State and the Railroad. Also, the State is financially accountable since the State's intent in owning the Railroad's stock is to directly enhance its ability to provide governmental services.

North Carolina Agricultural Finance Authority

The North Carolina Agricultural Finance Authority (Authority) is a legally separate authority created to administer the financing of loans to farmers and agribusiness at reasonable terms and interest rates. The Authority is governed by a 10-member board, one of whom is a state official and nine of whom are appointed by either the Governor or the General Assembly. A financial benefit/burden relationship exists between the State and the Authority.

The North Carolina Partnership for Children, Inc.

The North Carolina Partnership for Children, Inc. (Partnership) is a legally separate organization established to develop and oversee a comprehensive long-range strategic plan for high-quality early childhood education and development. A 26-member board governs the Partnership. Certain elected state officials appoint 22 of the members, while four members serve ex officio by virtue of their state positions. The State provides significant operating subsidies to the Partnership, creating a financial benefit/burden relationship.

Regional Economic Development Commissions:

North Carolina's Northeast Commission

North Carolina's Northeast Commission (Commission) is a legally separate organization created to facilitate economic development in the 16 counties in northeastern North Carolina. The Commission consists of 18 members, with six members appointed by the Governor, six by the Speaker of the House, and six by the President Pro Tempore of the Senate. The Secretary of Commerce serves as an ex-officio member. The State provides significant program and operating support to the Commission, creating a financial benefit/burden relationship.

Southeastern North Carolina Regional Economic Development Commission

The Southeastern North Carolina Regional Economic Development Commission (Commission) is a legally separate organization created to build economic strength in southeastern North Carolina. The Commission consists of 15 members, with three appointed by the Governor, two by the Lieutenant Governor, five by the Speaker of the House, and five by the President Pro Tempore of the Senate. The State provides significant program and operating support to the Commission, creating a financial benefit/burden relationship.

Western North Carolina Regional Economic Development Commission

The Western North Carolina Regional Economic Development Commission (Commission) is a legally separate organization created to improve economic opportunity in western North Carolina with sensitivity to the resources of that region. The Commission consists of 19 members, with seven appointed by the N.C. House of Representatives, seven by the N.C. Senate, three by the Governor, and two by the Lieutenant Governor. The State provides significant program and operating support to the Commission, creating a financial benefit/burden relationship.

North Carolina Turnpike Authority

The North Carolina Turnpike Authority (Authority) was created to study, design, plan, construct, finance, and operate a system of toll roads, bridges, and/or tunnels supplementing the traditional non-toll transportation system serving the citizens of the State. The Authority is governed by a nine member board consisting of four members appointed by the General Assembly and five members appointed by the Governor, including the Secretary of Transportation. The State has the ability to impose its will since appointed members may be removed without cause. Effective July 2009, the General Assembly enacted legislation transferring the functions and funds of the Authority to the Department of Transportation.

North Carolina Health Insurance Risk Pool, Inc.

The North Carolina Health Insurance Risk Pool (Pool), doing business as Inclusive Health, is a legally separate non-profit organization created to provide affordable health insurance coverage for North Carolinians who do not have access to an employer health plan and face higher insurance premiums because of a pre-existing medical condition. The Pool is governed by a 12-member board. The Commissioner of Insurance serves as an ex-officio, nonvoting member, one member is appointed by the Governor, two by the General Assembly, and eight by the Commissioner of Insurance. The State has obligated itself to provide significant funding to the Pool, creating a financial benefit/burden relationship.

Rural Economic Development Center, Inc.

The Rural Economic Development Center, Inc. (Center) is a legally separate organization established to build economic strength in the State's 85 rural counties, with a special focus on creating economic opportunities for individuals with low to moderate incomes and communities with limited resources. The Center is governed by a 50-member board of directors. Three members are appointed by the Governor, three by the Speaker of the House, and three by the President Pro Tempore of the Senate. The other members are elected by the board of directors. The State has obligated itself to provide significant funding to the Center, creating a financial benefit/burden relationship.

Availability of Financial Statements

Complete financial statements for the following component units can be obtained from the Office of the State Auditor, 2 South Salisbury Street, 20601 Mail Service Center, Raleigh, N.C. 27699-0601 or can be accessed from the Office of the State Auditor Internet home page at www.ncauditor.net.

Constituent institutions in the UNC System
Community colleges
North Carolina State Ports Authority
The North Carolina Partnership for Children, Inc.
North Carolina Agricultural Finance Authority
North Carolina Global TransPark Authority
North Carolina Health Insurance Risk Pool, Inc.

Complete financial statements for the following component units can be obtained from the respective administrative offices of those units listed below:

The Golden LEAF, Inc. 301 North Winstead Avenue Rocky Mount, NC 27804	NC Housing Finance Agency P.O. Box 28066 Raleigh, NC 27611-8066
State Education Assistance Authority P.O. Box 14103 Research Triangle Park, NC 27709-4103	North Carolina Railroad Company 2809 Highwoods Boulevard, Suite 100 Raleigh, NC 27604-1000
North Carolina's Northeast Commission 119 West Water Street Edenton, NC 27932	Southeastern NC Regional Economic Development Commission P.O. Box 2556 Elizabethtown, NC 28337
Western NC Regional Economic Development Commission 134 Wright Brothers Way Fletcher, NC 28732	Rural Economic Development Center, Inc. 4021 Carya Drive Raleigh, NC 27610
North Carolina Turnpike Authority 5400 Glenwood Avenue, Suite 400 Raleigh, NC 27612	

The North Carolina Infrastructure Finance Corporation does not issue separate financial statements.

B. Basis of Presentation

The accompanying financial statements of the State of North Carolina financial reporting entity have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") as applicable to governments. The Governmental Accounting Standards Board (GASB) establishes standards of financial accounting and reporting for state and local governmental entities. Private sector standards of accounting and financial reporting issued on or before November 30, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent those pronouncements do not conflict with or contradict GASB pronouncements. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The State has elected not to follow subsequent private-sector guidance. The financial statements of the North Carolina Railroad Company, a for-profit corporation, and the Rural Economic Development Center, Inc. (discretely presented component units) have been prepared in accordance with FASB pronouncements.

The financial statements are presented as of and for the fiscal year ended June 30, 2009, except for the USS North Carolina Battleship Commission whose statements are as of and for the fiscal year ended September 30, 2008, and the North Carolina Deferred Compensation Plan, the 401(k) Supplemental Retirement Income Plan, and the North Carolina Railroad Company whose statements are as of and for the fiscal year ended December 31, 2008.

The basic financial statements include both government-wide (based on the State as a whole) and fund financial statements as follows:

Government-wide Financial Statements

The statement of net assets and the statement of activities display information on all the nonfiduciary activities of the primary government (the State) and its component units. Fiduciary activities are excluded from the government-wide statements because they cannot be used to support the State's own programs. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are interfund services provided and used between functions. Elimination of these charges would misstate both the expenses of the purchasing function and the program revenues of the selling function. These statements distinguish between the governmental and business-type activities of the State. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

NOTES TO THE FINANCIAL STATEMENTS

The statement of activities demonstrates the degree to which the direct expenses of a given function or identifiable activity are offset by program revenues. Direct expenses are those that are clearly associated with a specific function or identifiable activity. Certain charges to other funds or programs for "centralized" expenses also include an overhead markup that is included in direct expenses. Program revenues include (a) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or identifiable activity (including fees, fines and forfeitures and certain grants and contracts that are essentially contracts for services) and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program or identifiable activity (including restricted investment earnings or losses). Revenues that are not classified as program revenues, including all taxes, are presented as general revenues. Unrestricted resources internally dedicated by the State's governing body (General Assembly) are reported as general revenues rather than as program revenues. The State does not allocate general government (indirect) expenses to other functions.

Fund Financial Statements

The fund financial statements provide information about the State's funds, including its fiduciary funds. Separate statements for each fund category—governmental, proprietary, and fiduciary—are presented. The emphasis of fund financial statements is on major governmental and major enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

The State reports the following major governmental funds:

General Fund
This is the State's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Highway Fund
This fund accounts for most of the activities of the Department of Transportation, including the construction and maintenance of the State's primary and secondary road systems. In addition, it supports areas such as the N.C. Ferry System, the Division of Motor Vehicles, public transportation, and railroad operations. The fund provides revenue to other State agencies to support initiatives such as the State Highway Patrol and driver's education. The principal revenues of the Highway Fund are motor fuels taxes, motor vehicle registration fees, driver's license fees, and federal aid. A portion of the motor fuels taxes is distributed to municipalities for local street projects.

Highway Trust Fund
This fund was established by legislation (Chapter 692 of the 1989 Session Laws) to provide a dedicated funding mechanism to meet highway construction needs for North Carolina. Taxes were increased for the specific purpose of improving identified primary transportation corridors within the State and for the completion of urban loops around seven major metropolitan areas. Additionally, this fund provides supplemental allocations for secondary road construction and supplemental assistance to municipalities for local street projects. The fund also makes transfers to the General Fund and the Highway Fund. The principal revenues of the Highway Trust Fund are highway use taxes, motor fuels taxes, and various title and registration fees.

The State reports the following major enterprise funds:

Unemployment Compensation Fund
This fund accounts for the State's unemployment insurance program, which is part of a national system established to provide temporary benefit payments to eligible unemployed workers. The unemployment benefits are financed primarily by State unemployment insurance taxes, distributions of federal unemployment insurance taxes, and federal funding for the unemployment benefits of civilian and military employees. The unemployment taxes collected from employers are transferred to the United States Treasury and deposited into North Carolina's Unemployment Insurance Trust Fund.

N.C. State Lottery Fund
This fund accounts for the activities of the N.C. Education Lottery Commission, which began ticket sales on March 30, 2006. The net profits of the fund are transferred periodically to the Education Lottery Fund, a nonmajor special revenue fund.

EPA Revolving Loan Fund
This fund accounts for the activities of the State's clean water and drinking water revolving loan programs, which provide low cost loans to units of local government for the construction of wastewater facilities and drinking water infrastructure. These programs are financed primarily by federal capitalization grants from the United States Environmental Protection Agency (EPA), interest earnings on loans, loan repayments, and State funds (i.e., bond proceeds and State appropriations).

Additionally, the State reports the following fund types:

Internal Service Funds
These funds account for workers compensation and state property fire insurance coverages, motor fleet management services, mail services, temporary staffing services, computing and telecommunication services, and surplus property services provided to other departments or agencies of the State and its component units, or to other governments, on a cost-reimbursement basis.

Pension and Other Employee Benefits Trust Funds
These funds account for resources held in trust for the members and beneficiaries of the State's defined benefit pension plans, Internal Revenue Code (IRC) Section 401(k) plan, IRC Section 457 plan, other defined contribution plans, death benefit plan, disability income plan, State health plan, and retiree health benefit fund.

Investment Trust Fund

This fund accounts for the external portion of the Investment Pool sponsored by the Department of State Treasurer and other investments held by the Department of State Treasurer for legally separate entities that are not part of the State reporting entity.

Private-purpose Trust Funds

These funds account for resources held in trust for insurance carriers, designated beneficiaries by the Administrative Office of the Courts, and other departmental trust funds in which the principal and income benefit individuals, private organizations, or other governments.

Agency Funds

These funds account for sales tax collections held on behalf of local governments, resources held by the Administrative Office of the Courts for distribution to designated beneficiaries, the Investment Pool's securities lending assets and liabilities allocated to participating component units, insurance company receivership assets, and other resources held by the State in a purely custodial capacity for individuals, private organizations, or other governments. Insurance company receivership assets are held by the Commissioner of Insurance exclusively in his capacity as Receiver. These assets belong to insurance companies and other entities in receivership and are not the property of the State.

C. Measurement Focus and Basis of Accounting

Government-wide, Proprietary, and Fiduciary Fund Financial Statements

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, except for agency funds which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

Lottery games are sold to the public by contracted retailers. For Powerball, revenue is recognized at the time of sale. For instant games, revenue is recognized at the time a pack of tickets is settled. For Powerball, prize expense is recorded at fifty percent of sales. For instant games, prize expense is accrued based on the final production prize structure percentage provided by the gaming vendor for each game and recorded on the value of packs settled. For instant games with prize tickets, the final prize structure percentage used is adjusted to eliminate the value of the prize tickets.

Nonexchange transactions, in which the State receives (or gives) value without directly giving (or receiving) equal value in exchange, include taxes; fines and forfeitures; grants, entitlements, and similar items; and donations. Recognition standards are based on the characteristics and classes of nonexchange transactions. Income taxes, sales taxes, and other similar taxes on earnings or consumption are recognized as revenues, net of estimated refunds and uncollectible amounts, in the accounting period when the underlying exchange transaction has occurred. Franchise taxes, other taxes, and fines and forfeitures are recognized as revenues, net of estimated refunds and uncollectible amounts, in the accounting period when an enforceable legal claim to the assets arises and the use of resources is required or is first permitted. Grants, entitlements, and donations are recognized as revenues, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection. Amounts received before all eligibility requirements have been met are reported as deferred revenues. Grants and similar aid to other organizations are recognized as expenses as soon as recipients have met all eligibility requirements. Amounts paid before all eligibility requirements have been met are reported as prepaid items.

Governmental Fund Financial Statements

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and liabilities are generally included on the balance sheet. The operating statement presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in spendable resources. General capital asset acquisitions are reported as expenditures and proceeds of general long-term debt are reported as other financing sources.

Under the modified accrual basis of accounting, revenues are recognized when both measurable and available. Generally, the State considers revenues reported in the governmental funds to be available if they are collected within 31 days after year-end. Exceptions are individual income tax revenues and federal and county funds accrued for the matching share of medicaid claims payable, which the State considers to be available if they are collected within 12 months after year-end. Furthermore, in the circumstance where underpayments exceed overpayments, individual income tax revenues are recognized to the extent of estimated overpayments (i.e., refunds payable and applied refunds). Principal revenue sources considered susceptible to accrual include taxes, federal funds, local funds, and investment earnings. Other revenues are considered to be measurable and available only when cash is received by the State.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, compensated absences, obligations for workers' compensation, pollution remediation, and arbitrage rebate liabilities, which are recognized as expenditures when payment is due. Pension contributions to cost-sharing pension plans are recognized as expenditures in the period to which the payment relates, even if payment is not due until the subsequent period.

D. Cash and Cash Equivalents

This classification includes undeposited receipts; petty cash; deposits held by the State Treasurer in the Short-term Investment portfolio (see Note 3); and demand and time deposits with private financial institutions, excluding certificates of deposit. The Short-term Investment portfolio maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit additional cash at any time and also may withdraw cash at any time without prior notice or penalty.

E. Investments

This classification includes deposits held by the State Treasurer in certain investment portfolios (see Note 3) as well as investments held separately by the State and its component units. Investments are generally reported at fair value. Land and other real estate held as investments by endowments are reported at fair value, consistent with how investments are generally reported. Additional investment valuation information is provided in Note 3. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.

F. Securities Lending

Cash received as collateral on securities lending transactions are reported as assets in the accompanying financial statements. Liabilities resulting from the securities lending transactions are also reported. Certain component units of the State deposit funds with the State Treasurer's Investment Pool, which participates in securities lending activities. The component units' position in the pool and related securities lending assets and liabilities are reported in an agency fund. Additional disclosures about the State Treasurer's securities lending transactions are provided in Note 3.

G. Receivables and Payables

Receivables in all funds represent amounts that have arisen in the ordinary course of business and are shown net of allowances for uncollectible amounts.

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/due from other funds" (i.e., current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds related to services provided and used, reimbursements, and transfers are classified as "due to/due from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

In the fund financial statements, advances between funds (and to component units) and notes receivable are offset by a reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

H. Inventories and Prepaid Items

The inventories of the State and component units are valued at cost using either the first-in, first-out, last invoice cost, or average cost method. These inventories consist of general supplies and materials. Institutions of the UNC System and community colleges also use these valuations along with the retail inventory method for some bookstore operations. The State Highway Fund (special revenue fund) accounts for its maintenance and construction inventories using the average cost method.

Inventories of governmental funds, proprietary funds, and component units are recorded as expenditures when consumed rather than when purchased. In the fund financial statements, inventories are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

In governmental funds, prepaid items are recorded as expenditures when purchased and balances of prepaid items are not reported as assets.

I. Restricted/Designated Assets

In the government-wide and enterprise fund financial statements, certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. The following resources are not available for current operations and are reported as restricted assets: 1) resources restricted or designated for the acquisition/construction of the government's own capital assets, 2) resources legally segregated for the payment of principal and interest as required by debt covenants, 3) temporarily invested debt proceeds, and 4) nonexpendable resources of permanent funds.

J. Capital Assets

Capital assets, which include property, plant, equipment; easements; and infrastructure assets (e.g., State highway network, utility systems, and similar items), are reported in the government-wide financial statements and the fund financial statements for proprietary funds. Purchased or constructed capital assets are reported at cost or estimated historical cost. The State highway network constructed prior to July 1, 2001 is recorded at estimated historical cost. Since July 1, 2001 the State highway network is recorded at cost. The initial estimated historical cost of the network is based on construction expenditures reported by the Department of Transportation less amounts estimated for the cost of right-of-ways and land improvements. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend its useful life are not capitalized. Donated capital assets are recorded at their estimated fair value at the date of donation.

Generally, capital assets are defined by the State and component units as assets with an initial value or cost greater than or equal to $5,000 and an estimated useful life of two or more years. Exceptions are certain component units (The Golden LEAF, Inc., N.C. Housing Finance Agency, N.C. Railroad Company, N.C. Regional Economic Development Commissions, Rural Economic Development Center, Inc., and the N.C. Health Insurance Risk Pool, Inc.), which maintain minimum thresholds of $1,000 or below.

The value of assets constructed by the State and its component units for their own use includes all material direct and indirect construction costs that are increased as a result of the construction. In proprietary funds and component units, interest costs incurred (if material) are capitalized during the period of construction.

The depreciation methods and estimated useful lives used by the State and its component units are as follows:

Asset Class	Method	Estimated Useful Life
Buildings	Straight-line	10-75 years
Machinery and Equipment	Straight-line	2-25 years
	Units of output for motor vehicles	90,000 miles
Intangible assets	Straight-line	2-40 years
Art, literature, and other artifacts	Straight-line	2-25 years
General infrastructure	Straight-line	10-75 years
State highway network	Composite	50 years

For the State highway network, depreciation is based on a weighted average of the estimated useful lives of dissimilar assets in the network (e.g., subsurface foundations, roadway surfaces, bridges, traffic control devices, guardrails, markings, signage, etc.).

K. Tax Refund Liabilities

Tax refund liabilities consist primarily of accrued income and sales and use tax refunds due to taxpayers. During the calendar year, the State collects employee withholdings and taxpayers' payments for income taxes. At June 30, the State estimates the amount it owes taxpayers for income tax overpayments during the preceding six months. Sales and use tax refund liabilities are also estimated at June 30. These liabilities are recorded as "Tax refunds payable."

L. Compensated Absences

Employees of the State and component units are permitted to accumulate earned but unused vacation pay benefits. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. Also, when determining the vacation pay liability due within one year, leave is considered taken on a last in, first out (LIFO) basis. In governmental funds, a liability for these amounts is reported only as payments come due each period upon the occurrence of relevant events such as employee resignations and retirements. The State's policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1 or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at year end is converted to sick leave.

In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on December 31 is retained by employees and transferred into the next calendar year. It is not part of the 30 day maximum applicable to regular vacation leave and is not subject to conversion to sick leave.

There is no liability for unpaid accumulated sick leave because the State has no obligation to pay sick leave upon employee termination or retirement. However, additional service credit for retirement pension benefits is given for accumulated sick leave upon retirement.

M. Long-Term Liabilities

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the columns for governmental activities, business-type activities, and component units. These amounts are also reported as liabilities in the fund financial statements for proprietary funds. If material, debt premiums of the State are deferred and amortized over the life of the debt using the effective interest method. Losses on the State's refundings are deferred and amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter, using the effective interest method. Losses on refundings of the N.C. Housing Finance Agency are deferred and amortized using the straight-line method. If material, debt premiums, discounts, and losses on refundings of the University of North Carolina System (component unit) are generally deferred and amortized using the straight-line method. Long-term debt is reported net of the applicable debt premium, discount, and/or deferred loss on refunding. Debt issuance costs of the State's governmental activities and the University of North Carolina System (component unit) are generally expensed. Debt issuance costs of the N.C. Housing Finance Agency and the State Education Assistance Authority (component units) are deferred and amortized over the life of the debt using the straight-line method.

In the fund financial statements, governmental fund types recognize debt premiums, as well as debt issuance costs, during the current period. The face amount of the debt issued and premiums received are reported as other financing sources. Issuance costs, whether or not withheld from the actual proceeds received, are reported as debt service expenditures.

N. Sureties

Sureties include various assets, including securities from insurance companies and bail bondsmen doing business within North Carolina, that have been placed in safekeeping with a financial institution or the State Treasurer, as required by applicable general statutes.

O. Net Assets/Fund Balance

Net assets are reported as restricted when constraints placed on them are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or are imposed by law through constitutional provisions. Constraints placed on net asset use by enabling legislation are not reported as net asset restrictions since such constraints are not legally enforceable. Legal enforceability means that the State can be compelled by an external party, such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation. Situations where the State's internal governing body (General Assembly) places restrictions on existing resources or earmarks existing revenue sources are considered to be constraints that are internally imposed. Such internally dedicated net assets are presented as unrestricted.

Under some programs, the State has the option of using either restricted or unrestricted resources to make certain payments. When both restricted and unrestricted resources are available for use, generally it is the State's policy to use receipts first (which include restricted and unrestricted resources), then State appropriations as necessary. Receipts are defined as all funds collected by an agency or institution other than State appropriations. The decision to use restricted or unrestricted receipts to fund a payment is transactional-based within the departmental management system in place at the agency or institution. For projects funded by tax-exempt debt proceeds and other sources, the debt proceeds are always used first.

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are (a) externally restricted for a specific use, (b) not available for appropriation or expenditure because the underlying asset is not an available financial resource, or (c) for encumbrances, which represent commitments related to unperformed contracts for services and undelivered goods (See Note 10, Fund Balance Reserves). Designations of fund balance represent tentative management plans that are subject to change; however since unreserved fund balance in the General Fund is negative, no designations are reported in the current year.

P. Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items and capital contributions. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Proprietary fund operating revenues result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as noncapital grants and investment earnings, result from nonexchange transactions or ancillary activities. Capital contributions are reported separately, after nonoperating revenues and expenses.

Q. Food and Nutrition Services

In accordance with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, the State recognizes distributions of food and nutrition services benefits as revenue and expenditures in the General Fund. Revenues and expenditures are recognized based on the fair market value at the time the benefits are distributed to the individual recipients. In North Carolina, benefits are distributed in electronic form, thus distribution takes place when the individual recipients use the benefits.

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Fund Balance / Net Assets Deficit

Primary Government

At June 30, 2009, the following internal service fund reported a net assets deficit: Mail Service Center, $245 thousand.

Rate Covenant Violation

Primary Government

General Statute 147-69.2, restricts the pension trust funds' holdings in limited partnership interests of limited liability partnerships or limited liability companies to 5% of the market value of all invested assets of the pension trust funds. Since September 2008, the State Treasurer has exceeded the limit by as much as 1.3%. While complying with existing contracts that require additional investments, the State Treasurer has not entered into any new agreements and is taking steps to prudently redeem holdings in these assets. At fiscal year-end, the State Treasurer exceeded the limit by less than 0.5%.

NOTE 3: DEPOSITS AND INVESTMENTS

A. Deposits and Investments with State Treasurer

Unless specifically exempt, every agency of the State and certain component units are required by General Statute 147-77 to deposit moneys received with the State Treasurer or with a depository institution in the name of the State Treasurer. Certain local governmental units that are not part of the reporting entity are also allowed to deposit money with the State Treasurer. Expenditures for the primary government and certain component units are made by warrants issued by the agencies and drawn on the State Treasurer. The State Treasurer processes these warrants each day when presented by the Federal Reserve Bank. General Statute 147-69.1 authorizes the State Treasurer to invest all deposits in obligations of or fully guaranteed by the United States; obligations of certain federal agencies; specified repurchase agreements; obligations of the State of North Carolina; time deposits with specified financial institutions; prime quality commercial paper with specified ratings; specified bills of exchange or time drafts; asset-backed securities with specified ratings; and corporate bonds and notes with specified ratings.

General Statute 147-69.2 authorizes the State Treasurer to invest the deposits of certain special funds, including the pension trust funds, the State Health Plan, the Disability Income Plan of N.C., the Escheat Fund, the Public School Insurance Fund, the State Education Assistance Authority, and trust funds of the University of North Carolina System, in the investments authorized in General Statute 147-69.1; general obligations of other states; general obligations of North Carolina local governments; asset-backed securities bearing specific ratings; and obligations of any company incorporated within or outside the United States bearing specific ratings. The deposits of the pension trust funds may be invested in all of the above plus certain insurance contracts; group trusts; individual, common or collective trusts of banks and trust companies; real estate investment trusts; limited partnership interest in limited liability partnerships or limited liability companies; and certain stocks and mutual funds.

External Investment Pool

To ensure that these and other legal and regulatory limitations are met, all cash deposited with the State Treasurer, except for the UNC Hospitals, Public Hospitals, Escheat Fund, and bond proceeds investment accounts and the Local Government Other Post-Employment Benefits Fund, is maintained in the Investment Pool. This pool, a governmental external investment pool, consists of the following individual investment portfolios:

Short-term Investment – This portfolio may hold any of the investments authorized by General Statute 147-69.1. The Short-term Investment portfolio is the primary cash management account for the State and is managed in such a manner as to be readily convertible into cash. The primary participants of this portfolio are the General Fund and the Highway Funds. Other participants include the remaining portfolios listed below, universities and various boards, commissions, community colleges, and school administrative units that make voluntary deposits with the State Treasurer.

Long-term Investment – This portfolio may hold the fixed-income investments authorized by General Statutes 147-69.1 and 147-69.2. Since the deposits in this fund are typically not needed for day-to-day operations, the investment vehicles used generally have a longer term and higher return than those held in the Short-term Investment portfolio. The primary participants of the portfolio are the pension trust funds.

Fixed Income Investment – This portfolio holds collateralized mortgage obligations, asset-backed and commercial mortgage-backed securities. The State's pension trust funds are the sole participants in the portfolio.

Equity Investment – This portfolio holds an equity-based trust. The State's pension trust funds are the sole participants in the portfolio.

Real Estate Investment – This portfolio holds investments in real estate-based trust funds and group annuity contracts. The State's pension trust funds are the sole participants in the portfolio.

Alternative Investment – This portfolio holds investments in limited partnerships and equities received in the form of distributions from its primary investments. The State's pension trust funds are the sole participants in the portfolio.

All of the above investment portfolios operate like individual investment pools, except that an investment portfolio may hold shares in other investment portfolios at the discretion of the State Treasurer and subject to the legal limitations discussed above. To this extent, the deposits are commingled; and therefore, the State Treasurer considers all investment portfolios to be part of a single pool, the Investment Pool. The Investment Pool contains deposits from funds and component units of the reporting entity (internal portion) as well as deposits from certain legally separate organizations outside the reporting entity (external portion). This pool is not registered with the Securities and Exchange Commission and is not subject to any formal oversight other than that of the legislative body.

NOTES TO THE FINANCIAL STATEMENTS

At year-end, the condensed financial statements for the Investment Pool maintained by the State Treasurer were as follows (dollars in thousands):

Statement of Net Assets
June 30, 2009

Assets:		
Cash and cash equivalents	$	122,656
Other assets		414,548
Investments		82,371,167
Total assets		82,908,371
Liabilities:		
Distributions payable		7,647
Other payables		164,250
Obligations under securities lending		11,783,834
Total liabilities		11,955,731
Net Assets:		
Internal:		
Primary government		67,558,730
Component units		2,860,399
External		533,511
Total net assets	$	70,952,640

Statement of Operations and Changes in Net Assets
For the Fiscal Year Ended June 30, 2009

Revenues:		
Investment income	$	(9,356,959)
Expenses:		
Securities lending		194,028
Investment management		277,472
Total expenses		471,500
Net increase in net assets resulting from operations		(9,828,459)
Distributions to participants:		
Distributions paid and payable		9,828,459
Share transactions:		
Reinvestment of distributions		(9,824,914)
Net share redemptions		(4,304,457)
Total increase in net assets		(14,129,371)
Net assets:		
Beginning of year		85,082,011
End of year	$	70,952,640

The external portion of the Investment Pool is presented in the State's financial statements as an investment trust fund. Each fund and component unit's share of the internal equity in the Investment Pool is reported in the State's financial statements as an asset of those funds or component units. Equity in the Short-term Investment portfolio is reported as cash and cash equivalents while equity in the Long-term Investment, Equity Investment, Real Estate Investment, and Alternative Investment portfolios is reported as investments. The internal equity of the pool differs from the amount of assets reported by the funds and component units due to the typical banker/customer outstanding and in-transit items. Additionally, each fund reports its share of the assets and liabilities arising from securities lending transactions. The State reports the assets and liabilities arising from securities lending transactions for component units as part of the State's agency funds, rather than allocate them to the component units.

Investments in nonparticipating contracts, such as nonnegotiable certificates of deposit, are reported at cost. Other investments held in the Short-term Investment portfolio are reported at amortized cost, which approximates fair value. All other investments are reported at fair value. Fair values are determined daily for the Long-term Investment and Equity Investment portfolios and quarterly for the Real Estate Investment and Alternative Investment portfolios. The fair value of fixed income securities is based on future principal and interest payments discounted using current yields for similar instruments. Investments in real estate trusts, limited partnerships, and the equity trust are valued using market prices provided by the third party professionals. Participants' shares sold and redeemed are determined in the same manner as is used to report investments, and the State Treasurer does not provide or obtain legally binding guarantees to support share values.

Net investment income earned by the Investment Pool is generally distributed on a pro rata basis. However, in accordance with legal requirements, the General Fund receives all investment income earned by funds created for purposes of meeting appropriations. For the fiscal year ended June 30, 2009, $21.5 million of investment income associated with other funds was credited to the General Fund.

Deposits

Custodial Credit Risk. For deposits, custodial credit risk is the risk that in the event of a bank failure, the State's deposits may not be recovered. At year-end, the Investment Pool's deposits were not exposed to custodial credit risk.

The State Treasurer's deposit policy for custodial credit risk is limited to complying with the collateralization rules of the North Carolina Administrative Code (Chapter 20 NCAC 7). Deposits to the Investment Pool may be made in any bank, savings and loan association or trust company in the State as approved by the State Treasurer. The North Carolina Administrative Code requires depositories to collateralize all balances that are not insured. The depositories must maintain specified security types in a third party escrow account established by the State Treasurer. The securities collateral must be governmental in origin (e.g., U.S. Treasury, U.S. agency, or state and local government obligations) or the highest grade commercial paper and bankers' acceptances. The market value of the collateral must not be less than the value of the uninsured deposits. The depositories may elect to collateralize deposits separately (dedicated method) or include deposits of the North Carolina local government units in a collateral pool with the State and certain component units (pooling method).

NOTES TO THE FINANCIAL STATEMENTS

Investments

At year-end, the Investment Pool maintained by the State Treasurer had the following investments and maturities (dollars in thousands):

Investment Type	Carrying Amount	Investment Maturities (in Years): Less Than 1	1 to 5	6 to 10	More Than 10
Debt securities:					
U.S. Treasuries	$ 7,932,575	$ 2,271,069	$ 55,125	$ 2,054,683	$ 3,551,698
U.S. agencies	8,435,293	1,629,985	4,183,660	1,888,882	732,766
Mortgage pass-throughs	5,867,036	—	—	3,225	5,863,811
Collateralized mortgage obligations	588,192	135,672	—	—	452,520
Asset-backed securities	605,148	436,108	118,854	17,112	33,074
Repurchase agreements	1,420,000	1,420,000	—	—	—
Commercial mortgage-backed securities	41,127	2,135	—	—	38,992
Domestic corporate bonds	9,912,657	113,293	971,026	4,955,453	3,872,885
Foreign government bonds	9,927	—	—	9,927	—
Securities purchased with cash collateral under securities lending program:					
Asset-backed securities	4,367,163	1,703,013	2,441,791	—	222,359
Repurchase agreements	863,133	863,133	—	—	—
Domestic corporate bonds	6,553,538	6,553,538	—	—	—
	46,595,789	$ 15,127,946	$ 7,770,456	$ 8,929,282	$ 14,768,105
Other securities:					
Equity based trust - domestic	18,575,629				
Equity based trust - international	9,734,253				
Alternative investments:					
Hedge funds	648,795				
Private equity investment partnerships	2,605,792				
Stock distributions	5,785				
Real estate trust funds	3,787,124				
Total investment securities	$ 81,953,167				

In addition to the above amount, certificates of deposit in the amount of $418 million are reported as investments in the Condensed Statement of Net Assets presented previously.

Also, the major investment classifications of the Investment Pool had the following attributes at year-end (dollars in thousands):

Investment Classification	Principal Amount	Range of Interest Rates
U.S. Treasuries	$ 6,774,269	1.62%-8.87%
U.S. agencies	8,264,857	0.00%-7.12%
Mortgage pass-throughs	5,639,767	4.5%-9.0%
Collateralized mortgage obligations	1,309,837	0.11%-7.52%
Commercial mortgage-backed securities	2,096,105	0.01%-7.99%
Asset-backed securities	1,092,896	.21%-7.13%
Domestic corporate bonds	10,109,986	1.63%-12.0%
Foreign government bonds	10,000	5.12%
Repurchase agreements	1,420,000	0%-0.01%
Securities purchased with cash collateral under securities lending program:		
Asset-backed securities	4,960,661	.30%-1.42%
Repurchase agreements	863,133	.01%-.49%
Domestic corporate bonds	6,731,275	0%-1.61%
Equity-based trust - domestic	n/a	n/a
Equity-based trust - international	n/a	n/a

NOTES TO THE FINANCIAL STATEMENTS

Equity-based Trust - The State Treasurer has contracted with an external party (Trustee) to create the "Treasurer of the State of North Carolina Equity Investment Fund Pooled Trust" (the Trust). The State's pension trust funds are the only depositors in the Trust. The State Treasurer employs investment managers to manage the assets, primarily in equity and equity-based securities in accordance with the General Statutes and parameters provided by the State Treasurer. The Trustee maintains custody of the underlying securities in the name of the Trust, services the securities, engages in securities lending transactions, and maintains all related accounting records. The Trustee also invests residual cash in a cash sweep fund and may be temporarily employed as an investment manager. The State Treasurer maintains beneficial interest in the Trust and no direct ownership of the securities.

Interest Rate Risk. Although there is no formally adopted investment policy, as a means of managing interest rate risk, fixed income assets of the Short-term Investment portfolio are invested in a laddered maturity approach that focuses on short maturity securities with ample liquidity. The Short-term Investment portfolio had a weighted average maturity of 1.8 years as of June 30, 2009. Most of the cash and cash equivalents of the major governmental and enterprise funds are invested in this portfolio.

The assets of the Long-term Investment portfolio are primarily invested in securities with maturities longer than five years. The longer maturity range is more sensitive to interest rate changes; however, the longer duration structure of the portfolio provides a better match to the long duration characteristics of the retirement systems' liabilities. At year-end, pensions and other employee benefit plans owned 99% of the Long-term Investment portfolio.

The Long-term Investment portfolio holds investments in Government National Mortgage Association (GNMA) mortgage pass-through pools. Critical to the pricing of these securities are the specific features of the cash flows from the interest and principal payments of the underlying mortgages. Therefore, these valuations are very sensitive to the potential of principal prepayments by mortgagees in periods of declining interest rates. Also, included within the Long-term Investment portfolio are U.S. government agencies and corporate bonds which carry call options in which the issuer has the option to prepay the principal at certain dates over the life of the security. As such, these types of securities are more sensitive to the decline in long-term interest rates as similar securities without call options.

In addition to the corporate bonds with call options mentioned in the preceding paragraph, there are corporate bonds with variable coupon rates that reset on specific dates. Also, the cash collateral received from securities lending has also been invested in corporate bonds with floating rates. Critical to the pricing of these securities are the changes in interest rates. The State Treasurer considers the maturity for interest rate risk purposes to be the length of time to the next reset date rather than the stated maturity.

The externally managed Fixed Income Investment portfolio holds investments in asset-backed securities and collateralized mortgage obligations. The focus is on fixed and floating rate, short duration securities with an average duration of less than 2.5 years. Securities must carry an investment grade rating to be purchased for the portfolio. The short duration nature of the assets limits interest rate risk. For the asset-backed securities with floating rate, the State Treasurer considers the maturity for interest rate risk purposes to be the length of time to the next reset date rather than stated maturity.

Also, included within the Fixed Income portfolio are commercial mortgage-backed securities with a focus on structures with fixed rates and average life of less than six years. Securities must carry an investment grade rating of AAA at the time of purchase.

Critical to the pricing of asset-backed and mortgage-backed securities are the specific features of cash flows from the interest and principal payments of the underlying assets. Therefore, valuations are very sensitive to the potential of principal prepayments by mortgagees in periods of declining interest rates.

Credit Risk. General Statute 147-69.1 specifies the cash investment options for the Short-term Investment portfolio. The statute limits credit risk by restricting the portfolio's corporate obligations, asset-backed securities, and commercial paper to securities that bear the highest rating of at least one nationally recognized rating service and do not bear a rating below the highest by any nationally recognized rating service. General Statute 147-69.2 specifies the cash investment options for the Long-term Investment portfolio. The statute limits credit risk by restricting the portfolio's asset-backed securities and corporate obligations to securities that bear one of the four highest ratings of at least one nationally recognized rating service and do not bear a rating below one of the four highest ratings by any nationally recognized rating service. In the Long-term Investment portfolio, all holdings were rated BBB (or equivalent) or higher at the time of purchase by all three nationally recognized rating agencies.

NOTES TO THE FINANCIAL STATEMENTS

At year-end, the Investment Pool had the following credit quality distribution for securities with credit exposure (dollars in thousands):

Investment Type	Carrying Amount by Credit Rating - Moody's/S&P/Fitch Aaa/AAA	Aa/AA	A	Baa/BBB	Ba/BB and Below
U.S. agencies	$ 8,310,120	$ —	$ 125,173	$ —	$ —
Collateralized mortgage obligations	509,146	9,788	25,729	10,691	32,838
Commercial mortgage-backed securities	41,127	—	—	—	—
Asset-backed securities	290,749	75,346	45,021	194,032	—
Repurchase agreements	1,420,000	—	—	—	—
Domestic corporate bonds	551,394	2,092,615	4,994,248	2,113,057	161,343
Foreign government bonds	—	—	9,927	—	—
Securities purchased with cash collateral under securities lending program:					
Asset-backed securities	4,001,911	237,891	22,726	8,307	96,328
Repurchase agreements	863,133	—	—	—	—
Domestic corporate bonds	887,156	1,338,095	4,124,775	—	203,512
Total	$ 16,874,736	$ 3,753,735	$ 9,347,599	$ 2,326,087	$ 494,021

Custodial Credit Risk. For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the State Treasurer will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At year-end, the investments purchased with cash collateral under the securities lending program of $11.8 billion were exposed to custodial credit risk since the securities were held by the counterparty and were not registered in the name of the State Treasurer. As required by contractual agreements, a third party agent holds these assets for the benefit of a dedicated Treasurer's account. This agreement fully indemnifies the Treasurer for any third party defaults or losses. All other investments of the Investment Pool were not exposed to custodial credit risk at year-end and no custodial credit risk policy has been adopted for these investment types.

Foreign Currency Risk. At year-end, the Investment Pool's exposure to foreign currency risk was as follows (dollars in thousands):

Currency	Carrying Value by Investment Type: Equity Based Trust - International	Alternative Investment - Private Equity Investment Partnerships	Real-Estate Trust Fund Investment Partnerships	Total
Euro	$ 2,320,553	$ 297,737	$ 99,015	$ 2,717,305
Japanese Yen	1,521,805	—	37,142	1,558,947
Pound Sterling	1,192,236	—	17,099	1,209,335
Hong Kong Dollar	561,968	—	41,568	603,536
Swiss Franc	417,153	—	1,457	418,610
Australian Dollar	280,764	—	15,391	296,155
Swedish Krona	136,505	—	1,198	137,703
New Taiwan Dollar	127,910	—	—	127,910
Canadian Dollar	122,764	—	1,010	123,774
South Korean Won	117,756	—	—	117,756
Other Currencies	610,254	—	6,612	616,866
Total	$ 7,409,668	$ 297,737	$ 220,492	$ 7,927,897

Although there is no formally adopted investment policy, the State Treasurer's investment policy permits up to 20% of the retirement systems' invested assets to be in international securities. At year-end, the retirement systems had approximately 13.2% invested in international securities.

Securities Lending

Based on the authority provided in General Statute 147-69.3(e), the State Treasurer lends securities from its Investment Pool to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The Treasurer's securities custodian manages the securities lending program. During the year the custodian lent U.S. government and agency securities, GNMAs, corporate bonds and notes for collateral. The custodian is permitted to receive cash, U.S. government and agency securities, or irrevocable letters of credit as collateral for the securities lent. The collateral is initially pledged at 102% of the market value of the securities lent, and additional collateral is required if its value falls to less than 100% of the market value of the securities lent. There are no restrictions on the amount of loans that can be made. Substantially all security loans can be terminated on demand by either the State Treasurer or the borrower. The State Treasurer cannot pledge or sell the collateral securities received unless the borrower defaults.

The cash collateral received is invested by the custodian agent and held in a separate account in the name of the State Treasurer. The weighted average maturities of the cash collateral investments are less than the weighted average maturities of the securities lent. While cash can be invested in securities ranging from overnight to five years, the custodian agent is not permitted to make investments where the weighted average maturity of all investments exceeds 30 days. At year-end, the weighted average maturity of investments was approximately 25 days.

At year-end, the State Treasurer had no credit risk exposure to borrowers because the amounts the Treasurer owed the borrowers exceeded the amounts the borrowers owed the State. The securities custodian is contractually obligated to indemnify the Treasurer for certain conditions, the two most important are default on the part of the borrowers and failure to maintain the daily mark-to-market on the loans.

Interest Rate Risk and Credit Risk. The policies for investments purchased with cash collateral under the securities lending program are set forth in the contract with the securities custodian. Contractually, asset-backed securities must bear the highest rating of at least one nationally recognized rating service. The expected maturity shall not exceed five years and securities having a final maturity greater than two years will be in floating rate instruments with interest rate resets occurring at no greater than 90-day intervals to minimize the effect of interest rate fluctuations on their valuations. The securities pledged as collateral for repurchase agreements are limited to securities issued or guaranteed by the U.S. government or its agencies, or specified bank or corporate obligations. As directed by the State Treasurer, repurchase counterparties are limited to specific counterparties with specific dollar limits per counterparty. Corporate bonds and notes, including bank holding company obligations, rated AA must have a final maturity no greater than three years. Securities rated A must have a final maturity no greater than two years. No more than five percent of the cash collateral may be invested in a single issue.

Bond Proceeds Investment Accounts

The State Treasurer has established separate investment accounts for each State bond issue to comply with Internal Revenue Service regulations on bond arbitrage. A private investment company under contract with the State Treasurer manages these separate accounts. The investments are valued at amortized cost, which approximates fair value. In the State's financial statements, each fund's equity in these accounts is reported as investments.

At year-end, the bond proceeds investment accounts had the following investments and maturities (dollars in thousands):

Investment Type	Carrying Amount	Weighted Average Maturity (Days)
Debt securities:		
State and local government	$ 7,205	7
Repurchase agreements	134,539	2
Total investments	$ 141,744	

Interest Rate Risk and Credit Risk. As established in the contract with the private investment company, all bond proceeds are managed in compliance with General Statute 147-69.1, which limits credit risk as described above, and can only be invested in short-term maturities with the average maturity ranging between overnight to six months based on the liquidity needs of the investment accounts. At year-end, Standard and Poor's rated investments in state and local government bonds as A-1.

Custodial Credit Risk. Investments purchased with bond proceeds were exposed to custodial credit risk since the securities were held by the counterparty and were not registered in the name of the State Treasurer. There is no custodial policy related to these securities.

University of North Carolina (UNC) Hospitals Investment Account

The State Treasurer has contracted with an external party (Trustee) to create the University of North Carolina Hospitals at Chapel Hill Trust (Trust). The UNC Hospitals are the only depositor in the Trust. However, the Trust is a participant of a commingled equity investment fund. The Trustee manages the assets, primarily in equity and equity-based securities in accordance with the General Statutes. The Trustee maintains custody of the underlying securities in the name of the Trust, services the securities, and maintains all related accounting records. The investments are valued at fair market value using market prices provided by third party professionals.

At year-end, the UNC Hospitals investment account maintained by the State Treasurer had the following investments (settled transactions) (dollars in thousands):

Investment Type	Carrying Amount
Other securities:	
Equity based trust - domestic	$ 175,684
Equity based trust - international	59,685
Total investment securities	$ 235,369

NOTES TO THE FINANCIAL STATEMENTS

Foreign Currency Risk. There is no formally adopted investment policy to limit foreign currency exposure. At year-end, the UNC Hospitals investment account's exposure to foreign currency was as follows (dollars in thousands):

Currency	Carrying Value by Investment Type Equity Based Trust-International
Euro	$ 13,907
Japanese Yen	9,893
Pound Sterling	8,741
Canadian Dollar	4,244
Hong Kong Dollar	3,702
Swiss Franc	3,239
Australian Dollar	3,155
South Korean Won	1,680
Brazil Cruzeiro Real	1,492
New Taiwan Dollar	1,088
Swedish Krona	914
Russian Rouble	851
South African Rand	633
Singapore Dollar	589
Other Currencies	4,567
Total	$ 58,695

Note: The totals in this table do not agree to the totals disclosed in the investment table above because this foreign currency table includes equities based on trade date while the investment table is reported on settle date.

Public Hospitals Investment Account

The State Treasurer has contracted with an external party (Trustee) to create the Public Hospitals investment account. The investment account currently consists of Margaret R. Pardee Hospital Trust and New Hanover Regional Medical Center Trust. These Trusts are part of a commingled equity investment fund. The Trustee manages the assets, primarily in equity and equity-based securities in accordance with the General Statutes. The Trustee maintains custody of the underlying securities in the name of the Trust, services the securities, and maintains all related accounting records. The investments are valued at fair market value using market prices provided by third party professionals.

At year-end, the Public Hospitals investment accounts maintained by the State Treasurer had the following investments (settled transactions) (dollars in thousands):

Investment Type	Carrying Amount
Other securities:	
Equity based trust - domestic	$ 31,232
Equity based trust - international	11,534
Total investment securities	$ 42,766

Foreign Currency Risk. There is no formally adopted investment policy to limit foreign currency exposure. At year-end, the Public Hospitals investment account's exposure to foreign currency was as follows (dollars in thousands):

Currency	Carrying Value by Investment Type Equity Based Trust-International
Euro	$ 2,688
Japanese Yen	1,912
Pound Sterling	1,689
Canadian Dollar	820
Hong Kong Dollar	716
Swiss Franc	626
Australian Dollar	610
South Korean Won	325
Brazil Cruzeiro Real	288
New Taiwan Dollar	210
Swedish Krona	177
Russian Rouble	164
South African Rand	122
Singapore Dollar	114
Other Currencies	882
Total	$ 11,343

Note: The totals in this table do not agree to the totals disclosed in the investment table above because this foreign currency table includes equities based on trade date while the investment table is reported on settle date.

Escheat Investment Account

Pursuant to General Statute 147-69.2(b)(12), the State Treasurer has established a separate investment account on behalf of the Escheat Fund. The investments are valued at fair market value using market prices provided by third party professionals. At year-end, the Escheat investment account maintained by the State Treasurer had the following investments (dollars in thousands):

Investment Type	Carrying Amount
Other securities:	
Real estate trust funds	$ 13,385
Private equity investment partnerships	24,241
Public equities - domestic	26,394
Public equities - international	3,882
Total investment securities	$ 67,902

NOTES TO THE FINANCIAL STATEMENTS

Foreign Currency Risk. There is no formally adopted investment policy to limit foreign currency exposure. At year-end, the Escheat investment account's exposure to foreign currency was as follows (dollars in thousands):

Currency	Carrying Value by Investment Type: Public Equities - International
Euro	$ 711
Japanese Yen	559
Hong Kong Dollar	440
Pound Sterling	394
Brazil Cruzeiro Real	215
Swiss Franc	203
South Korean Won	175
New Taiwan Dollar	151
Singapore Dollar	99
Canadian Dollar	97
Mexican New Peso	77
Australian Dollar	58
South African Rand	53
Russian Rouble	43
Swedish Krona	40
Other Currencies	567
Total	$ 3,882

Local Government Other Post-Employment Benefits (OPEB) Fund

Pursuant to General Statute 147-69.4, the State Treasurer manages the Local Government OPEB Fund. This is a trust fund established for local governments, public authorities, any entity eligible to participate in the State's Local Government Employee's Retirement System, and local school administrative units. Eligible participants make voluntary contributions to the trust for the purpose of depositing and investing all or part of the contributions from their other post-employment benefit plans. As of June 30, 2009, the trust fund had twelve participants.

General Statute 147-69.2 authorizes the State Treasurer to invest the Local Government OPEB Fund in the investments authorized in General Statute 147-69.1; general obligations of other states; general obligations of North Carolina local governments; asset-backed securities bearing specific ratings; obligations of any company incorporated within or outside the United States bearing specific ratings; and directly in certain stocks or indirectly through individual, common or collective trusts of banks and trust companies. The State Treasurer manages the trust's assets and is responsible for making all investment decisions.

At year-end, the trust maintained by the State Treasurer had the following investments (settled transactions)(dollars in thousands):

Investment Type	Carrying Amount
Short-term investment	$ 7,009
Long-term investment	2,976
Other securities:	
Equity based trust - domestic	10,456
Equity based trust - international	3,440
Total investment securities	$ 23,881

The short-term and long-term investments listed above represent holdings in the State Treasurer's Investment Pool's Short-term Investment and Long-term Investment portfolios.

Foreign Currency Risk. There is no formally adopted investment policy to limit foreign currency exposure. At year-end, the trust's exposure to foreign currency risk was as follows (dollars in thousands):

Currency	Carrying Value by Investment Type: Equity Based Trust-International
Euro	$ 801
Japanese Yen	570
Pound Sterling	504
Canadian Dollar	245
Hong Kong Dollar	213
Swiss Franc	187
Australian Dollar	182
South Korean Won	97
Brazil Cruzeiro Real	86
New Taiwan Dollar	63
Swedish Krona	53
Russian Rouble	49
South African Rand	36
Singapore Dollar	34
Indian Rupee	33
Mexican Peso	31
Turkish Lira	24
Danish Krone	24
Malaysian Ringgit	22
Norwegian Krone	20
Other Currencies	108
Total	$ 3,382

Note: The totals in this table do not agree to the totals disclosed in the investment table above because this foreign currency table includes equities based on trade date while the investment table is reported on settle date.

B. Deposits Outside the State Treasurer

In addition to the pooled deposits maintained by the State Treasurer, other deposits are maintained outside the State Treasurer by the primary government and certain component units. As a general rule, these deposits are not covered by the rules in Chapter 20 NCAC 7 requiring collateralization of uninsured deposits.

Primary Government

The majority of deposits held outside the State Treasurer were maintained by the various clerks of superior court. The clerks of superior court do not have a deposit policy for custodial credit risk. At year-end, the bank balances maintained outside the State Treasurer by the primary government were exposed to custodial credit risk as follows (dollars in thousands):

Uninsured and uncollateralized	$	3,675
Uninsured and collateral held by pledging bank's trust department but not in State's name		57,783
Total	$	61,458

Component Units

(University of North Carolina System, The Golden LEAF, Inc. and State Education Assistance Authority)

The University of North Carolina (UNC) System does not have a deposit policy for custodial credit risk. At year-end, the bank balances maintained outside the State Treasurer by the UNC System were exposed to custodial credit risk as follows (dollars in thousands):

Uninsured and uncollateralized	$	208,671
Uninsured and collateral held by pledging bank's trust department or agent but not in State's name		180
Total	$	208,851

The Golden LEAF, Inc. does not have a deposit policy for custodial credit risk. At year-end, the bank balances maintained outside the State Treasurer by the Golden LEAF, Inc. were exposed to custodial credit risk as follows (dollars in thousands):

Uninsured and uncollateralized	$	3,205
Total	$	3,205

The State Education Assistance Authority does not have a deposit policy for custodial credit risk. At year-end, the bank balances maintained outside the State Treasurer by the State Education Assistance Authority were exposed to custodial credit risk as follows (dollars in thousands):

Uninsured and collateral held by pledging bank	$	5,110
Total	$	5,110

C. Investments Outside the State Treasurer

Investments in participating investment contracts, external investment pools, open-end mutual funds, debt securities, equity securities, and all investments of the Deferred Compensation Plan are reported at fair value. Investments in certificates of deposit, investment agreements, bank investment contracts, real estate, real estate investment trusts, and limited partnerships are reported at cost. Detailed disclosures about investments held outside the State Treasurer are presented below.

Primary Government

At year-end, 73% of investments held outside the State Treasurer were maintained by the Supplemental Retirement Income Plan of North Carolina.

Supplemental Retirement Income Plan of North Carolina

The General Statutes place no specific investment restrictions on the Supplemental Retirement Income Plan of North Carolina (the Plan). However, in the absence of specific legislation, the form of governance over the investments would be the prudent-person or prudent-expert rule. These rules are broad statements of intent, generally requiring investment selection and management to be made with prudent, discreet, and intelligent judgment and care. The Plan does not have formal investment policies that address interest rate risk, custodial credit risk, concentration of credit risk, or foreign currency risk.

NOTES TO THE FINANCIAL STATEMENTS

At December 31, 2008, the Supplemental Retirement Income Plan of North Carolina had the following investments and maturities that were maintained outside the State Treasurer (dollars in thousands):

Investment Type	Carrying Amount	Investment Maturities (in Years) Less Than 1	1 to 5	6 to 10	More Than 10
Debt securities:					
Fidelity Intermediate Bond Fund	$ 213,813	$ —	$ 213,813	$ —	$ —
U.S. Treasuries	269,793	10,641	120,250	51,703	87,199
U.S. agencies	106,256	6,086	73,509	21,361	5,300
Mortgage pass-throughs	53,116	9,096	—	—	44,020
Collateralized mortgage obligations	512,068	72,880	1,034	16,621	421,533
Asset-backed securities	10,704	1,211	8,093	428	972
Domestic corporate bonds	242,978	11,610	99,893	91,308	40,167
Foreign corporate bonds	43,690	5,463	19,405	8,642	10,180
Foreign government bonds	10,379	733	2,703	3,097	3,846
	1,462,797	$ 117,720	$ 538,700	$ 193,160	$ 613,217
Other securities:					
State Street Securities Lending Quality Trust	326,607				
Balanced mutual funds	204,122				
International mutual funds	239,040				
Other mutual funds	1,574,940				
Total investment securities	$ 3,807,506				

Interest Rate Risk. The Fidelity Intermediate Bond Fund, which is rated AA, had a weighted average maturity of 4.1 years as of August 31, 2008. In the above table, it is disclosed as an investment with a maturity of one to five years. Collateralized mortgage obligation securities generate a return based upon either the payment of interest or principal on mortgages in an underlying pool. The relationship between interest rates and prepayments make the fair value highly sensitive to changes in interest rates. In falling interest rate environments, the underlying mortgages are subject to a higher propensity of prepayments. In a rising interest rate environment, the opposite is true.

Credit Risk. The Plan's investment policy requires that debt securities, at the time of purchase, shall have a minimum Standard & Poor's rating of BBB-. Any security downgraded below BBB- by Standard & Poor's will be liquidated within six months. At year-end, the Plan investments maintained outside the State Treasurer had the following credit quality distribution for securities with credit exposure (dollars in thousands):

Investment Type	Carrying Amount by Credit Rating - Moody's/S&P/Fitch Aaa/AAA	Aa/AA	A	Baa/BBB	Unrated
U.S. agencies	$ 106,256	$ —	$ —	$ —	$ —
Mortgage pass-throughs	47,145	—	—	—	5,971
Collateralized mortgage obligations	—	—	—	—	512,068
Asset-backed securities	9,997	—	707	—	—
Domestic corporate bonds	13,424	16,118	136,480	76,956	—
Foreign corporate bonds	—	4,616	20,755	18,319	—
Foreign government bonds	—	—	2,943	7,436	—
Total	$ 176,822	$ 20,734	$ 160,885	$ 102,711	$ 518,039

Custodial Credit Risk. For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the Plan will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Plan does not have a formal policy to limit custodial credit risk. At December 31, 2008, the investments of the Supplemental Retirement Income Plan of North Carolina maintained outside the State Treasurer were exposed to custodial credit risk as follows (dollars in thousands):

Investment Type	Carrying Amount Held by Counterparty
U.S. Treasuries	$ 269,793
U.S. agencies	106,256
Mortgage pass-throughs	53,116
Collateralized mortgage obligations	512,068
Asset-backed securities	10,704
Domestic corporate bonds	242,978
Foreign corporate bonds	43,690
Foreign government bonds	10,379
Total	$ 1,248,984

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Plan places no limit on the amount that may be invested in any one issuer. More than 5% of the Plan's investments are in Federal National Mortgage Association and Federal Home Loan Mortgage Corporation. These investments totaled $344.685 million and $184.525 million and comprise 9.9% and 5.3%, respectively, of the Plan's investments. The majority of these investments are classified as collateralized mortgage obligations.

Securities Lending

The Plan has a securities lending contract with State Street Bank and Trust Company ("State Street") as agent to lend available securities to broker-dealers and other entities (borrowers) in accordance with the agreement. State Street enters into loan contracts with borrowers on behalf of the Plan whereby the borrowers of the securities agree to transfer to State Street either cash collateral or securities issued or guaranteed by the U. S. government or its agencies with a fair value of 102% of the value of the securities lent. The borrowers of the securities simultaneously agree to return the borrowed securities in exchange for the collateral at a later date.

As of December 2008, State Street lent U.S. Treasuries, U.S. agencies, collateralized mortgage obligations, domestic corporate bonds, foreign corporate bonds, and foreign governmental bonds. Cash collateral is invested in the State Street Securities Lending pooled fund, which at December 2008 had a weighted average maturity of 37 days.

The Plan has no credit risk exposure to borrowers because the amounts the Plan owes the borrowers exceed the amounts the borrowers owe the system. The contract with State Street requires State Street to indemnify the Plan if borrowers fail to return securities.

Other Primary Government Investments

The other primary government investments held outside the State Treasurer consisted almost entirely of balances maintained by the North Carolina Public Employee Deferred Compensation Plan (the Plan) and separate investment accounts held by trustees for special obligation debt issues to comply with IRS regulations on bond arbitrage.

General Statute 143B-426.24(j) allows the Deferred Compensation Plan Board to acquire investment vehicles from any company authorized to conduct such business in this State or may establish, alter, amend and modify, to the extent it deems necessary or desirable, a trust for the purpose of facilitating the administration, investment and maintenance of assets acquired by the investment of deferred funds. All assets of the Plan, including all deferred amounts, property and rights purchased with deferred amounts, and all income attributed thereto shall be held in trust for the exclusive benefit of the Plan participants and their beneficiaries.

At year-end, the other primary government investments maintained outside the State Treasurer had the following investments and maturities (dollars in thousands):

Investment Type	Carrying Amount	Investment Maturities (in Years) Less Than 1	1 to 5	6 to 10	More Than 10
Debt securities:					
U.S. Treasuries	$ 962	$ 583	$ 83	$ 296	$ —
U.S. Treasury STRIPS	1,259	548	600	111	—
U.S. agencies	156,473	12	5,614	29,575	121,272
Mortgage pass-throughs	275	—	172	103	—
State and local government	74	5	35	34	—
Asset-backed securities	14,751	—	3,568	7,401	3,782
Repurchase agreements	453,649	451,234	2,415	—	—
Annuity contracts	23,780	—	23,780	—	—
Money market mutual funds	3,383	3,383	—	—	—
Domestic corporate bonds	10,626	3,529	5,761	873	463
	665,232	$ 459,294	$ 42,028	$ 38,393	$ 125,517
Other securities:					
Balanced mutual funds	12,834				
International mutual funds	35,766				
Other mutual funds	367,370				
Domestic stocks	85,786				
Total investment securities	$ 1,166,988				

NOTES TO THE FINANCIAL STATEMENTS

Interest Rate Risk and Credit Risk. The special obligation debt proceeds are generally invested in repurchase agreements. As established in the debt covenants, repurchase agreements with respect to government obligations can only be entered into with 1) a dealer recognized as a primary dealer by a Federal Reserve Bank with a short-term rating not less than P-1 from Moody's Investors Service (Moody's) and not less than A-1 from Standard & Poor's (S&P) and Fitch Ratings (Fitch); or 2) any commercial bank, trust company, or national banking association rated A or better by Moody's, S&P and Fitch, the deposits of which are insured by the Federal Deposit Insurance Corporation. There are no formally adopted investment policies or debt covenants for special obligation debt proceeds that address interest rate risk.

At year-end, the other primary government investments maintained outside the State Treasurer had the following credit quality distribution for securities with credit exposure (dollars in thousands):

	Carrying Amount by Credit Rating - Moody's/S&P/Fitch				
Investment Type	Aaa/AAA	Aa/AA	A	Baa/BBB	Unrated
U.S. agencies	$ 156,461	$ —	$ —	$ 12	$ —
Mortgage pass-throughs	275	—	—	—	—
State and local government	53	—	—	21	—
Asset-backed securities	11,648	2,555	—	548	—
Repurchase agreements	54,403	—	—	—	6,700
Annuity contracts	—	—	—	—	23,780
Money market mutual funds	214	—	—	216	2,953
Domestic corporate bonds	3,648	2,604	4,335	39	—
Total	$ 226,702	$ 5,159	$ 4,335	$ 836	$ 33,433

Custodial Credit Risk. For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the primary government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. There were no formally adopted policies that address custodial credit risk of other primary government investments outside the State Treasurer. At year-end, the other primary government investments maintained outside the State Treasurer were exposed to custodial credit risk as follows (dollars in thousands):

	Carrying Amount	
Investment Type	Held by Counterparty	Held by Counterparty's Trust Dept. or Agent but not in State's Name
U.S. Treasuries	$ 511	$ —
U.S. agencies	53	154,133
Mortgage pass-throughs	275	—
State and local government	53	—
Asset-backed securities	—	14,751
Repurchase agreements	—	6,700
Domestic corporate bonds	107	10,519
Total	$ 999	$ 186,103

Foreign Currency Risk. Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair market value of an investment. At year-end, there were no formally adopted policies that address foreign currency risk of other primary government investments outside the State Treasurer.

Concentration of Credit Risk. The North Carolina Public Employee Deferred Compensation Plan (the Plan) places no limit on the amount that may be invested in any one issuer. More than 5% of the Plan's investments are in Federal National Mortgage Association and Federal Home Loan Mortgage Corporation. These investments totaled $64.871 million and $69.014 million and comprise 10.4% and 11.1%, respectively, of the Plan's investments.

NOTES TO THE FINANCIAL STATEMENTS

Component Units
(University of North Carolina System, State Education Assistance Authority and The Golden LEAF, Inc.)

University of North Carolina System

The General Statutes place no specific investment restrictions on the University of North Carolina System (the UNC System). However, in the absence of specific legislation, the form of governance over these investments would be the prudent-person or prudent-expert rule. These rules are broad statements of intent, generally requiring investment selection and management to be made with prudent, discreet, and intelligent judgment and care. The University of North Carolina at Chapel Hill (the University) operates an Investment Fund, which is a governmental external investment pool. The University operates the Investment Fund for charitable, nonprofit foundations, associations, trusts, endowments and funds that are organized and operated primarily to support the University. Separate financial statements for the Investment Fund may be obtained from the University.

At year-end, the UNC System had the following investments and maturities that were maintained outside the State Treasurer (dollars in thousands):

		Investment Maturities (in Years)			
Investment Type	Carrying Amount	Less Than 1	1 to 5	6 to 10	More Than 10
Debt securities:					
U.S. Treasuries	$ 128,010	$ 11,377	$ 90,240	$ 1,163	$ 25,230
U.S. agencies	177,883	14,023	70,291	12,885	80,684
Mortgage pass-throughs	13,005	—	34	3,077	9,894
Collateralized mortgage obligations	59,031	—	—	498	58,533
State and local government	273	60	—	38	175
Asset-backed securities	5,582	—	67	208	5,307
Repurchase agreements	7,295	7,295	—	—	—
Annuity contracts	102	—	—	—	102
Money market mutual funds	156,823	156,823	—	—	—
Mutual bond funds	81,432	—	35,450	44,804	1,178
Domestic corporate bonds	33,379	1,799	8,446	3,989	19,145
Foreign corporate bonds	284	1	42	74	167
Foreign government bonds	10,315	—	—	10,286	29
	673,414	$ 191,378	$ 204,570	$ 77,022	$ 200,444
Other securities:					
International mutual funds	201,310				
Other mutual funds	167,167				
Investments in real estate	34,996				
Real estate investment trusts	1,249				
Hedge funds	1,017,661				
Limited partnerships	873,065				
Pooled investments	272				
Domestic stocks	152,308				
Foreign stocks	3,321				
Other	49,751				
Total investment securities	$ 3,174,514				

Limited Partnerships – The limited partnership positions are primarily held by the University of North Carolina at Chapel Hill. The University uses various external money managers to identify specific investment funds and limited partnerships that meet asset allocation and investment management objectives. The University invests in these funds and partnerships to increase the yield and return on its investment portfolio given the available alternative investment opportunities and to diversify its asset holdings. These investments generally include equity and bond funds. Certain investment funds expose the University to significant amounts of market risk by trading or holding derivative securities and by leveraging the securities in the fund. The University limits the amount of funds managed by any single asset manager and also limits the amount of funds to be invested in particular security classes.

NOTES TO THE FINANCIAL STATEMENTS

Interest Rate Risk and Credit Risk. The constituent institutions of the UNC System generally do not have formal investment policies that address interest rate risk or credit risk. At year-end, the UNC System's investments maintained outside the State Treasurer had the following credit quality distribution for securities with credit exposure (dollars in thousands):

	Carrying Amount by Credit Rating - Moody's/S&P/Fitch					
Investment Type	Aaa/AAA	Aa/AA	A	Baa/BBB	Ba/BB and Below	Unrated
U.S. agencies	$ 1,565	$ —	$ —	$ —	$ —	$ 160,740
Mortgage pass-throughs	1,721	—	36	—	—	11,223
Collateralized mortgage obligations	13,087	4,917	12,759	6,592	17,364	4,312
State and local government	—	—	118	85	—	70
Asset-backed securities	544	2,514	516	172	1,836	—
Annuity contracts	—	—	—	—	—	102
Money market mutual funds	155,349	—	337	—	—	1,137
Mutual bond funds	15,160	50,500	4,184	592	550	10,446
Domestic corporate bonds	1,789	5,441	15,547	8,807	1,773	22
Foreign corporate bonds	—	158	15	32	79	—
Foreign government bonds	—	10,286	29	—	—	—
Total	$ 189,215	$ 73,816	$ 33,541	$ 16,280	$ 21,602	$ 188,052

Custodial Credit Risk. The constituent institutions of the UNC System generally do not have formal investment policies that address custodial credit risk. At year-end, the UNC System's investments maintained outside the State Treasurer were exposed to custodial credit risk as follows (dollars in thousands):

	Carrying Amount	
Investment Type	Held by Counterparty	Held by Counterparty's Trust Dept. or Agent but not in State's Name
U.S. Treasuries	$ 14,566	$ 770
U.S. agencies	15,612	—
Mortgage pass-throughs	11,223	—
Collateralized mortgage obligations	5,723	—
Domestic corporate bonds	8,268	—
Domestic stocks	36,494	—
Total	$ 91,886	$ 770

Foreign Currency Risk. The constituent institutions of the UNC System do not have formal investment policies that address foreign currency risk. At year-end, the UNC System's investments maintained outside the State Treasurer were exposed to foreign currency risk as follows (dollars in thousands):

	Carrying Amount	
Currency	Foreign Stocks	Limited Partnerships
Euro	$ —	$ 52,516
Pound Sterling	—	4,996
Australian Dollar	—	1,428
Canadian Dollar	175	305
Total	$ 175	$ 59,245

NOTES TO THE FINANCIAL STATEMENTS

The State Education Assistance Authority

The State Education Assistance Authority (the Authority) is authorized by the University of North Carolina Board of Governors pursuant to General Statute 116-36.2 to invest its special funds in the same manner as the State Treasurer is required to invest, as discussed in Section A of this note.

Investments. In accordance with bond resolutions, bond proceeds and debt service funds are invested in obligations that will by their terms mature on or before the date funds are expected to be required for expenditure or withdrawal.

Interest Rate Risk. The Authority does not have a formal investment policy that addresses interest rate risk. The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2009, for the Authority's investments (dollars in thousands):

Investment Type	Carrying Amount	Investment Maturities (in Years) Less Than 1	1 to 5	6 to 10	More Than 10
Debt securities:					
Money market mutual funds	$ 270,034	$ 270,034	$ —	$ —	$ —
Annuity contracts	4,874	4,874	—	—	—
	274,908	$ 274,908	$ —	$ —	$ —
Other securities:					
Investment agreements	129,256				
Other mutual funds	306,281				
Domestic stocks	28,994				
Total investment securities	$ 739,439				

Credit Risk. The Authority has formally adopted investment policies for credit risk stating that certain investment obligations shall bear one of the two highest ratings by nationally recognized rating services. As of June 30, 2009, the Authority's investments were rated as follows (dollars in thousands):

Investment Type	Carrying Amount by Credit Rating - S&P Unrated
Money market mutual funds	$ 270,034
Annuity contracts	4,874
Total	$ 274,908

Custodial Credit Risk. The Authority does not have a formal policy that addresses custodial credit risk. The Authority's investments were exposed to custodial credit risk as follows (dollars in thousands):

Investment Type	Carrying Amount Held by Counterparty's Trust Dept. or Agent but not in State's Name
Domestic stocks	28,994
Total	$ 28,994

Concentration of Credit Risk. The Authority places no limit on the amount that may be invested in any one issuer. More than 5% of the Authority's investments are in Pallas Capital Funding Corporation. These investments are 12.8% of the Authority's investments.

NOTES TO THE FINANCIAL STATEMENTS

The Golden LEAF, Inc.

The General Statutes place no specific investment restrictions on The Golden LEAF, Inc (Foundation). The Foundation is authorized by its Board of Directors to invest in any of the following broad asset classes: domestic equities, real estate, mutual funds, foreign equities, fixed income securities, cash equivalents, and alternatives.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Foundation monitors the interest rate risk inherent in its portfolio by measuring the effective duration of its portfolio. The Foundation has no specific limitations with respect to duration. At year-end, the Foundation had the following investments and durations that were maintained outside the State Treasurer (dollars in thousands):

Investment Type	Carrying Amount	Effective Duration (in years)
Debt securities:		
Money market mutual funds	$ 14,373	0.08
Mutual bond funds	58,530	4.64
	72,903	
Other securities:		
International mutual funds	82,388	
Other mutual funds	60,573	
Real estate investment trusts ...	25,911	
Hedge funds	131,697	
Limited partnerships	105,594	
Domestic stocks	76,704	
Total investment securities	$ 555,770	

Credit Risk. Credit risk is the risk that an issuer of an investment will not fulfill its obligation. Credit risk is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Foundation investment policy has no specific limitations with respect to credit quality, but provides that approximately 50% of the fixed income allocation will be allocated to U.S. Treasury strategies. As of June 30, 2009, the Foundation's investments were rated as follows (dollars in thousands):

	Carrying Amount by Credit Rating - Moody's/S&P/Fitch		
Investment Type	Aaa/AAA	Aa/AA	A
Money market mutual funds	$ 14,373	$ —	$ —
Mutual bond funds	21,065	22,531	14,934
Total	$ 35,438	$ 22,531	$ 14,934

Foreign Currency Risk. Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair market value of an investment. At year-end the Foundation has no formally adopted policies that address foreign currency risk.

NOTE 4: RECEIVABLES

Receivables at year-end are reported net of allowances for doubtful accounts as follows (dollars in thousands):

Governmental Activities:

	General Fund	Highway Fund	Highway Trust Fund	Other Governmental Funds	Internal Service Funds[1]	Total
Receivables, gross (excluding notes)	$ 2,709,805	$ 166,973	$ 40,311	$ 40,402	$ 14,228	$ 2,971,719
Allowance for doubtful accounts	(493,115)	(9,729)	—	(31)	—	(502,875)
Receivables, net	$ 2,216,690	$ 157,244	$ 40,311	$ 40,371	$ 14,228	$ 2,468,844
Notes receivable, gross	$ 22,828	$ 1,030	$ 88	$ 360,070	$ —	$ 384,016
Allowance for doubtful accounts	—	—	—	(48,850)	—	(48,850)
Notes receivable, net	$ 22,828	$ 1,030	$ 88	$ 311,220	$ —	$ 335,166

(1) Includes balances due from fiduciary funds.

Within governmental activities, the only significant receivables not expected to be collected within one year are $207.09 million of notes receivable in other governmental funds, and, in the General Fund, $17.86 million of notes receivable.

Business-Type Activities:

	Unemployment Compensation Fund	EPA Revolving Loan Fund	N.C. State Lottery Fund	Other Enterprise Funds	Total
Receivables, gross (excluding notes)	$ 523,672	$ 4,029	$ 5,057	$ 5,982	$ 538,740
Allowance for doubtful accounts	(62,798)	—	—	(13)	(62,811)
Receivables, net	$ 460,874	$ 4,029	$ 5,057	$ 5,969	$ 475,929
Notes receivable, gross	$ —	$ 718,449	$ —	$ —	$ 718,449
Notes receivable, net	$ —	$ 718,449	$ —	$ —	$ 718,449

Within business-type activities, the only significant receivables not expected to be collected within one year are $678 million of notes receivable in the EPA Revolving Loan Fund and $57.34 million of contributions receivable in the Unemployment Compensation Fund. Revenues of other enterprise funds are net of uncollectible amounts.

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NOTE 5: CAPITAL ASSETS

Primary Government. A summary of changes in capital assets for the year ended June 30, 2009 is presented below (dollars in thousands).

Governmental Activities:	Balance July 1, 2008 (as restated)	Additions	Deductions	Balance June 30, 2009
Capital Assets, nondepreciable:				
Land	$ 10,676,804	$ 589,375	$ (43,765)	$ 11,222,414
Art, literature, and other artifacts	66,389	2,941	(2,168)	67,162
Construction in progress	2,100,567	1,542,451	(1,580,331)	2,062,687
Total capital assets-nondepreciable	12,843,760	2,134,767	(1,626,264)	13,352,263
Capital Assets, depreciable:				
Buildings	2,593,131	211,227	(5,240)	2,799,118
Machinery and equipment	1,668,626	119,793	(154,525)	1,633,894
Intangibles	197,032	5,245	(4,352)	197,925
General infrastructure	174,921	8,454	(1,395)	181,980
State highway system	23,429,583	1,448,450	(61,055)	24,816,978
Total capital assets-depreciable	28,063,293	1,793,169	(226,567)	29,629,895
Less accumulated depreciation for:				
Buildings	(727,786)	(50,693)	3,795	(774,684)
Machinery and equipment	(984,797)	(115,237)	135,805	(964,229)
Intangibles	(93,609)	(4,693)	4,205	(94,097)
General infrastructure	(77,829)	(4,675)	599	(81,905)
State highway system	(6,347,627)	(496,339)	59,834	(6,784,132)
Total accumulated depreciation	(8,231,648)	(671,637)	204,238	(8,699,047)
Total capital assets-depreciable, net	19,831,645	1,121,532	(22,329)	20,930,848
Governmental activities capital assets, net	$ 32,675,405	$ 3,256,299	$ (1,648,593)	$ 34,283,111

Business-type Activities:

	Balance July 1, 2008 (as restated)	Additions	Deductions	Balance June 30, 2009
Capital Assets, nondepreciable:				
Land	$ 3,452	$ —	$ —	$ 3,452
Construction in progress	532	—	—	532
Total capital assets-nondepreciable	3,984	—	—	3,984
Capital Assets, depreciable:				
Buildings	35,862	—	(443)	35,419
Machinery and equipment	7,226	462	(327)	7,361
General infrastructure	15,752	—	—	15,752
Total capital assets-depreciable	58,840	462	(770)	58,532
Less accumulated depreciation for:				
Buildings	(18,585)	(691)	444	(18,832)
Machinery and equipment	(3,188)	(710)	332	(3,566)
General infrastructure	(8,988)	(518)	—	(9,506)
Total accumulated depreciation	(30,761)	(1,919)	776	(31,904)
Total capital assets-depreciable, net	28,079	(1,457)	6	26,628
Business-type activities capital assets, net	$ 32,063	$ (1,457)	$ 6	$ 30,612

Depreciation expense was charged to functions/programs of the primary government as follows (dollars in thousands):

Governmental activities:	
General government	$ 37,410
Primary and secondary education	364
Higher education	50
Health and human services	11,034
Economic development	826
Environment and natural resources	12,090
Public safety, corrections, and regulation	49,857
Transportation	556,404
Agriculture	3,602
Total depreciation expense	$ 671,637
Business-type activities:	
N.C. State Fair	$ 667
USS North Carolina Battleship Commission	115
Agricultural Farmers Market	335
EPA Revolving Loan Fund	20
State Banking Commission	4
ABC Commission	116
Utilities Commission	6
N.C. State Lottery	544
Other business-type activities	112
Total depreciation expense	$ 1,919

NOTES TO THE FINANCIAL STATEMENTS

Component Units (University of North Carolina System and community colleges). Capital asset activity for the University of North Carolina System and community colleges for the fiscal year ended June 30, 2009, was as follows (dollars in thousands):

University of North Carolina System:	Balance July 1, 2008 (as restated)	Additions	Deductions	Balance June 30, 2009
Capital Assets, nondepreciable:				
Land	$ 227,408	$ 15,330	$ (1,742)	$ 240,996
Art, literature, and other artifacts	123,718	6,226	(5)	129,939
Intangibles	16,608	17,224	—	33,832
Construction in progress	1,288,565	563,973	(603,940)	1,248,598
Total capital assets-nondepreciable	1,656,299	602,753	(605,687)	1,653,365
Capital Assets, depreciable:				
Buildings	7,412,434	735,752	(43,019)	8,105,167
Machinery and equipment	1,556,101	154,289	(63,750)	1,646,640
Art, literature, and other artifacts	2,391	155	—	2,546
General infrastructure	990,216	73,619	(417)	1,063,418
Total capital assets-depreciable	9,961,142	963,815	(107,186)	10,817,771
Less accumulated depreciation for:				
Buildings	(2,030,059)	(184,716)	10,777	(2,203,998)
Machinery and equipment	(965,511)	(113,285)	52,918	(1,025,878)
Art, literature, and other artifacts	(1,250)	(155)	—	(1,405)
General infrastructure	(349,651)	(31,699)	352	(380,998)
Total accumulated depreciation	(3,346,471)	(329,855)	64,047	(3,612,279)
Total capital assets-depreciable, net	6,614,671	633,960	(43,139)	7,205,492
University of North Carolina System capital assets, net	$ 8,270,970	$ 1,236,713	$ (648,826)	$ 8,858,857

Capital assets of nongovernmental component units of the University of North Carolina System are excluded from the above amounts. At June 30, 2009, nongovernmental component unit foundations and similarly affiliated organizations of the University of North Carolina System had nondepreciable capital assets of $41.124 million and net depreciable capital assets of $135.378 million.

Community Colleges:

	Balance July 1, 2008 (as restated)	Additions	Deductions	Balance June 30, 2009
Capital Assets, nondepreciable:				
Land	$ 124,344	$ 23,492	$ (2,586)	$ 145,250
Art, literature, and other artifacts	345	—	—	345
Construction in progress	145,009	140,573	(124,820)	160,762
Total capital assets-nondepreciable	269,698	164,065	(127,406)	306,357
Capital Assets, depreciable:				
Buildings	1,806,254	150,991	(300)	1,956,945
Machinery and equipment	233,961	25,756	(6,894)	252,823
Art, literature, and other artifacts	396	55	—	451
General infrastructure	118,042	5,735	(194)	123,583
Total capital assets-depreciable	2,158,653	182,537	(7,388)	2,333,802
Less accumulated depreciation for:				
Buildings	(438,312)	(40,114)	1,267	(477,159)
Machinery and equipment	(95,262)	(16,240)	5,368	(106,134)
Art, literature, and other artifacts	(42)	(10)	—	(52)
General infrastructure	(28,212)	(3,155)	126	(31,241)
Total accumulated depreciation	(561,828)	(59,519)	6,761	(614,586)
Total capital assets-depreciable, net	1,596,825	123,018	(627)	1,719,216
Community Colleges capital assets, net	$ 1,866,523	$ 287,083	$ (128,033)	$ 2,025,573

Capital assets of nongovernmental component units of community colleges are excluded from the above amounts. At June 30, 2009, nongovernmental component unit foundations and similarly affiliated organizations of community colleges had nondepreciable capital assets of $3.076 million and net depreciable capital assets of $7.170 million.

NOTE 6: SHORT-TERM DEBT

Primary Government

Employment Security Commission

During fiscal year 2009, the State received repayable advances from the Federal Unemployment Account (FUA) in the amount of $1.08 billion to finance an operating deficit in the State's unemployment compensation fund. Proceeds from the advances were used to pay unemployment benefits. The debt is currently interest free through December 31, 2010. The repayable advances are payable solely from the unemployment tax contributions and these contributions will be used specifically for paying down the debt until it is settled. Meanwhile, the unemployment benefits will continue to be paid from the repayable advances. Total revenue collected from unemployment tax contributions for the year was $1.013 billion. Prior to February 11, 2009, unemployment tax contributions were used to pay benefits. After February 11, 2009, employer tax contributions were used to pay down the principal on the repayable advances in the amount of $352.08 million. At June 30, 2009, the outstanding balance for the FUA advances was $728.773 million.

Short-term debt activity for the Employment Security Commission for the fiscal year ended June 30, 2009, was as follows (dollars in thousands):

	Balance July 1, 2008	Draws	Repayments	Balance June 30, 2009
FUA Advance	$ —	$ 1,080,851	$ (352,078)	$ 728,773

Component Units

University of North Carolina System

North Carolina State University has available commercial paper program financing for short-term credit up to $100 million to finance capital construction projects. The University's available funds are pledged to the commercial paper program financing with the anticipation of converting to general revenue bond financing in the future. As of June 30, 2009, $20 million in tax-exempt commercial paper was outstanding.

At the University of North Carolina at Chapel Hill, commercial paper was issued from the University of North Carolina General Revenue Bonds, Series 2002A, to provide interim financing for the construction of capital projects. The amount of outstanding commercial paper as of June 30, 2009 was $148.291 million.

The University of North Carolina at Wilmington engaged in interim financing in anticipation of the issuance of Recreation Center Bonds to finance the construction of an addition to the recreation center facility. The anticipation note will be repaid within the next fiscal year. As of June 30, 2009, $3.2 million in anticipation notes was outstanding.

At North Carolina Central University, a bond anticipation note of $3.5 million was issued to finance pre-construction expenses for a dormitory, parking deck and renovation of a building. Bonds were issued in July 2009 and the anticipation note was retired in July 2009. At June 30, 2009, the outstanding balance was $3.5 million.

Short-term debt activity for the University of North Carolina System for the fiscal year ended June 30, 2009, was as follows (dollars in thousands):

	Balance July 1, 2008	Draws	Repayments	Balance June 30, 2009
Commercial Paper Program	$ 176,657	$ 98,000	$ (106,366)	$ 168,291
Anticipation Notes	—	6,700	—	6,700

The Golden LEAF (Long-term Economic Advancement Foundation), Inc.

On October 15, 2008, the Golden LEAF, Inc. (Foundation) borrowed $100 million through a short-term unsecured, non-revolving credit facility. The proceeds of the loan were placed in escrow to support the construction of new aerospace facilities at the Global TransPark in Lenoir County, North Carolina, in accordance with a grant awarded to the North Carolina Global TransPark Authority in May 2008. Proceeds from the Master Settlement Agreement (MSA) payment were used to make a partial principal repayment of $85 million on April 30, 2009. On April 30, 2009, the terms of the loan were modified. Under the modified terms, the outstanding principal amount of $15 million plus any accrued interest is due April 30, 2010.

Short-term debt activity for the Golden LEAF Foundation for the fiscal year ended June 30, 2009, was as follows (dollars in thousands):

	Balance July 1, 2008	Draws	Repayments	Balance June 30, 2009
Line of Credit	$ —	$ 100,000	$ (85,000)	$ 15,000

NOTE 7: LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities

Primary Government. Long-term liability activity for the year ended June 30, 2009, was as follows (dollars in thousands):

	Balance July 1, 2008 (as restated)	Increases	Decreases	Balance June 30, 2009	Amounts Due Within One Year
Governmental activities:					
Bonds and similar debt payable:					
General obligation bonds	$ 5,533,760	$ —	$ (364,495)	$ 5,169,265	$ 364,385
Special indebtedness:					
Lease-purchase revenue bonds	235,045	—	(10,000)	225,045	10,000
Certificates of participation	965,880	—	(46,295)	919,585	46,985
Limited obligation bonds	—	600,000	—	600,000	19,295
GARVEE bonds	287,565	—	(45,745)	241,820	38,670
Less deferred amounts:					
For issuance discounts	(126)	—	126	—	—
On refunding	(76,923)	—	13,912	(63,011)	—
Add issuance premium	287,272	31,371	(43,512)	275,131	—
Total bonds and similar debt payable	7,232,473	631,371	(496,009)	7,367,835	479,335
Notes payable	33,187	1,070	(6,594)	27,663	4,658
Capital leases payable	24,564	463	(1,194)	23,833	1,242
Arbitrage rebate payable	3,025	607	(2,721)	911	—
Compensated absences	403,361	263,297	(242,377)	424,281	36,136
Net pension obligation	522	9,714	(9,762)	474	—
Workers' compensation	88,749	33,827	(30,310)	92,266	4,634
Deferred death benefit payable	565	—	(35)	530	290
Pollution remediation payable	6,469	978	(759)	6,688	558
Court judgment payable	749,886	—	(18,183)	731,703	—
Cost settlement payable	35,300	—	(20,300)	15,000	15,000
Governmental activity long-term liabilities	$ 8,578,101	$ 941,327	$ (828,244)	$ 8,691,184	$ 541,853
Business-type activities:					
Pollution remediation payable	$ —	$ 250	$ —	$ 250	$ 163
Compensated absences	4,682	3,436	(2,927)	5,191	347
Business-type activity long-term liabilities	$ 4,682	$ 3,686	$ (2,927)	$ 5,441	$ 510

For governmental activities, the compensated absences, net pension obligation, workers' compensation, and cost settlement liabilities are generally liquidated by the General Fund. Pollution remediation payable is generally liquidated by the Highway Fund. Arbitrage rebate payable is generally liquidated by other governmental funds. A portion of compensated absences is also liquidated by the Highway Fund. Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year-end, $5.831 million of internal service funds compensated absences are included in the above amounts.

NOTES TO THE FINANCIAL STATEMENTS

Component Units (University of North Carolina System, North Carolina Housing Finance Agency, and the State Education Assistance Authority). Long-term liability activity for the year ended June 30, 2009, was as follows (dollars in thousands):

	Balance July 1, 2008 (as restated)	Increases	Decreases	Balance June 30, 2009	Amounts Due Within One Year
University of North Carolina System:					
Bonds payable:					
Revenue bonds	$ 2,370,579	$ 173,550	$ (148,980)	$ 2,395,149	$ 155,410
Certificates of participation	33,135	—	(2,010)	31,125	2,075
Less deferred amounts:					
For issuance discounts	(40,031)	—	5,282	(34,749)	—
On refunding	(25,305)	(4,641)	4,557	(25,389)	—
Add issuance premium	49,238	1,310	(2,947)	47,601	—
Total bonds payable	2,387,616	170,219	(144,098)	2,413,737	157,485
Notes payable	91,892	12,962	(52,584)	52,270	24,969
Capital leases payable	142,716	75,407	(6,182)	211,941	12,135
Arbitrage rebate payable	317	138	(49)	406	137
Annuity and life income payable	16,706	2,507	(2,048)	17,165	1,465
Compensated absences	311,354	231,462	(211,201)	331,615	34,050
Pollution remediation payable	—	83	—	83	83
Liability insurance trust fund payable	60,958	3,868	(19,612)	45,214	13,459
Total long-term liabilities	$ 3,011,559	$ 496,646	$ (435,774)	$ 3,072,431	$ 243,783

Long-term liabilities of nongovernmental component units of the University of North Carolina System are excluded from the above amounts. At June 30, 2009, nongovernmental component unit foundations and similarly affiliated organizations of the University of North Carolina System had total long-term liabilities of $445.595 million, of which $12.938 million was due within one year and $432.657 million was due in more than one year.

	Balance July 1, 2008	Increases	Decreases	Balance June 30, 2009	Amounts Due Within One Year
North Carolina Housing Finance Agency:					
Bonds payable:					
Revenue bonds	$ 1,569,235	$ —	$ (51,450)	$ 1,517,785	$ 72,630
Less deferred amounts:					
For issuance discounts	(19,237)	—	1,227	(18,010)	—
Total bonds payable	1,549,998	—	(50,223)	1,499,775	72,630
Arbitrage rebate payable	1,564	—	(66)	1,498	100
Compensated absences	875	371	(327)	919	45
Total long-term liabilities	$ 1,552,437	$ 371	$ (50,616)	$ 1,502,192	$ 72,775

	Balance July 1, 2008	Increases	Decreases	Balance June 30, 2009	Amounts Due Within One Year
State Education Assistance Authority:					
Bonds payable:					
Revenue bonds	$ 3,694,937	$ 1,075,655	$ (776,130)	$ 3,994,462	$ 647,400
Arbitrage rebate payable	5,738	—	(3,163)	2,575	1,016
Compensated absences	304	63	(8)	359	11
Total long-term liabilities	$ 3,700,979	$ 1,075,718	$ (779,301)	$ 3,997,396	$ 648,427

B. Bonds, Special Indebtedness, and Notes Payable

Bonds, special indebtedness, and notes payable at June 30, 2009 were as follows (dollars in thousands):

	Interest Rates	Maturing Through Year	Original Issue Amount	Outstanding Balance
Primary Government:				
Governmental activities				
General obligation bonds	0.10% - 5.50%*	2028	$ 7,163,715	$ 5,169,265
Special indebtedness:				
Lease-purchase revenue bonds	3.00% - 5.25%	2024	272,045	225,045
Certificates of participation	3.00% - 5.25%	2028	1,064,840	919,585
Limited obligation bonds	2.00% - 5.25%	2029	600,000	600,000
GARVEE Bonds	3.75% - 4.00%	2019	287,565	241,820
Notes payable	3.64% - 4.00%	2018	38,208	27,663
Component Units:				
University of North Carolina System				
Revenue bonds	0.15% - 10.00%*	2037	$ 2,877,971	$ 2,395,149
Certificates of participation	3.13% - 5.00%	2036	38,745	31,125
Notes payable	0.60% - 8.75%*	2019	121,627	52,270
North Carolina Housing Finance Agency				
Revenue bonds	2.70% - 8.25%*	2039	$ 3,589,241	$ 1,517,785
State Education Assistance Authority				
Revenue bonds	0.53% - 4.00%*	2037	$ 4,833,805	$ 3,994,462

* For variable rate debt, interest rates in effect at June 30, 2009 are included. For variable rate debt with interest rate swaps, the synthetic fixed rates are included.

General obligation bonds are secured by the full faith, credit, and taxing power of the State. The payments on special indebtedness; which include lease-purchase revenue bonds, certificates of participation (COPs), and limited obligation bonds; are subject to appropriation by the General Assembly. Special indebtedness may also be secured by a lien on equipment or facilities, or by lease payments made by the State. Other long-term debts of the State and its component units are payable solely from certain resources of the funds to which they relate.

C. Bonds Authorized but Unissued

The amount of authorized but unissued debt of the primary government at June 30, 2009 totaled $1.97 billion as follows: university projects $1.133 billion, psychiatric hospital $276 million, correctional facilities $215 million, guaranteed energy savings contracts $68 million, parks and land $40 million, State and other projects $188 million, and repairs and renovations $50 million.

The 2009 General Assembly modified the way that existing authorized and unissued indebtedness may be financed in the future. Projects may be financed using general obligation bonds up to a limit of $488 million or with appropriation supported special indebtedness up to a limit of $1.482 billion. Projects may also be financed in total by some combination of general obligation bonds and special indebtedness (except guaranteed energy savings contracts).

In 2005, the N.C. General Assembly enacted General Statute 136-18(12b) providing for the issuance of Grant Anticipation Revenue Vehicle Bonds (GARVEEs), which are payable from revenues consisting primarily of federal transportation funds, with the proceeds to finance federal-aid highway projects. The GARVEEs are limited obligations of the State payable solely from these funding sources. The total amount of GARVEEs that may be issued is subject to limitations contained in the authorizing legislation tied to the historic and future level of federal transportation funds the State has or is expected to receive.

D. Demand Bonds

Included in bonds payable are several variable rate demand bond issues. Demand bonds are securities that contain a "put" feature that allows bondholders to demand payment before the maturity of the debt upon proper notice to the issuer's remarketing or paying agents.

Primary Government

With regard to the following demand bonds, the State has entered into take out agreements, which would convert the demand bonds not successfully remarketed into another form of long-term debt.

Governmental Activities

State of North Carolina Variable Rate General Obligation Bonds, Series D, E, F, and G

On May 1, 2002 the State issued tax-exempt variable rate general obligation demand bonds, ($88.75 million, series D through G) in the total amount of $355 million that have a final maturity date of May 1, 2021. Each series of bonds is subject to mandatory sinking fund redemption that will begin on May 1, 2013. The bonds represent a consolidation of Public Schools Buildings Bonds, Clean Water Bonds and Higher Education Bonds. The bonds currently bear interest at a weekly rate, and the bonds are subject to purchase at a price equal to principal plus interest on demand with seven days notice and delivery to the Tender Agent, First Citizens Bank and Trust Co.

The State's Remarketing Agents, Banc of America Securities (series 2002D), JP Morgan Securities (series 2002E), Goldman Sachs (series 2002F) and Wachovia Bank, N.A. (series 2002G) have agreed to exercise their best efforts to remarket bonds for which a notice of purchase has been received. The quarterly remarketing fee is payable in arrears and is equal to 0.05% per annum of the outstanding principal amount of the bonds assigned to each agent. During the fiscal year 2008-09, Wells Fargo & Co. purchased Wachovia Bank, N.A.

Under four separate standby bond purchase agreements (agreements) between the State and Landesbank Hessen-Thuringen Girozentrale, ("the Bank") a Liquidity Facility has been established for each series for the Tender Agent to draw amounts sufficient to pay the purchase price and accrued interest on bonds delivered for purchase when remarketing proceeds or other funds are not available. The State is required to pay the Bank a commitment fee quarterly in arrears, until the expiration date or the termination date of the agreements. For the past fiscal year the fee was 0.1% per annum under the agreement which began on May 1, 2002.

Under the agreements, any bonds purchased through the Liquidity Facility become Bank Bonds and shall, from the date of such purchase and while they are Bank Bonds, bear interest at the bank bond interest rate. The Bank Bond interest rate is an adjustable rate tied to the prime rate or federal funds rate with a maximum of 18%. Upon remarketing of Bank Bonds and the receipt of the sales price by the Bank, such bonds are no longer considered Bank Bonds. Payment of interest to the Bank is due quarterly for each period in which Bank Bonds are outstanding. At June 30, 2009, there were no Bank Bonds held under the Liquidity Facility by the Bank.

Included in the agreements is a take-out provision, in the event the Remarketing Agent is unable to resell any bonds that are "put" within 90 days of the "put" date. In this situation, the State is required to redeem the Bank Bonds held by the Liquidity Facility. The agreements allow the State to redeem Bank Bonds in equal quarterly installments of principal plus accrued interest. The principal payments will commence with the first business day of any such month (January, April, July, October) that is at least 90 days following the applicable purchase date of the Bank Bond and end no later than the fifth anniversary of such purchase date. If the take out agreement were to be exercised because the entire outstanding $355 million of demand bonds was "put" and not resold, the State would be required to pay $71 million a year for five years under the installment loan agreement plus interest based on the base rate plus 1% for the first 180 days and the base rate plus 2% for the second 180 days. In years two through five, the interest calculation is the base rate plus 3% on the remaining principal. At June 30, 2009, the base rate was 3.25% (the prime rate).

The current expiration date of the agreements is December 31, 2015. The Bank has the option to terminate its commitment on July 15, 2010 or July 15, 2015 by providing adequate notice of its intention. The bonds are not subject to mandatory tender for purchase as a result of immediate termination of the liquidity agreements. Failure by the State to purchase bonds tendered for purchase results in the bonds bearing interest at a floating rate indexed to unsecured commercial paper for 75 days continuing thereafter at an interest rate of 12%.

State of North Carolina Variable Rate General Obligation Refunding Bonds, Series B, C, D, E, and F

On December 5, 2002, the State issued tax-exempt variable rate general obligation demand bonds, ($100 million, series B through E and $99.87 million, series F) in the total amount of $499.87 million that have final maturity dates of June 1, 2019. Each series of bonds is subject to mandatory sinking fund redemption that will begin on June 1, 2012. The bonds were issued to refund certain general obligation bonds of the State. The bonds currently bear interest at a weekly rate, and the bonds are subject to purchase at a price equal to principal plus interest on demand with seven days notice and delivery to the Tender Agent, First Citizens Bank and Trust Co.

The State's Remarketing Agents, Wachovia Bank N. A. (series 2002B), Citigroup (series 2002C), Wachovia Bank N.A. (series 2002D), RBC Capital Markets (series 2002E) and BB&T Capital Markets (series 2002F) have agreed to exercise their best efforts to remarket bonds for which a notice of purchase has been received. The quarterly remarketing fee is payable in arrears and is equal to 0.05% per annum of the outstanding principal amount of the bonds assigned to each agent.

Under separate standby bond purchase agreements (agreements) between the State and Wachovia Bank N.A. (series 2002B), Bayerische Landesbank (series 2002C), Landesbank Baden-Wuttemberg (series 2002D), Bayerische Landesbank (series 2002E) and Landesbank Baden-Wuttemberg (series 2002F), (collectively, "the Banks"), liquidity facility agreements have been established for the Tender Agent to draw amounts sufficient to pay the purchase price and accrued interest on bonds delivered for purchase when remarketing proceeds or other funds are not available. The State is required to pay the banks a commitment fee quarterly in arrears until the expiration date or the termination date of the agreements. For the past fiscal year, the fee was 0.11% per annum under the long-term agreement which began on December 5, 2002.

Under the agreements, any bonds purchased through the Liquidity Facility become Bank Bonds and shall, from the date of such purchase and while they are Bank Bonds, bear interest at the Bank Bond interest rate. The Bank Bond interest rate is an adjustable rate tied to the prime rate or federal funds rate with a maximum of 20%. Upon remarketing of Bank Bonds and the receipt of the sales price by the Banks, such bonds are no longer considered Bank Bonds. Payment of interest to the banks is due quarterly for each period in which Bank Bonds are outstanding. At June 30, 2009 there were no Bank Bonds held under the Liquidity Facility.

Included in the agreements is a take-out provision, in the event the Remarketing Agent is unable to resell any bonds that are "put" within 90 days of the "put" date. In this situation, the State is required to redeem the Bank Bonds held by the Liquidity Facility. The agreements allow the State to redeem Bank Bonds in equal quarterly installments of principal plus accrued interest. The payments will commence with the first business day of any such month (January, April, July, October) that is at least 90 days following the applicable purchase date of the Bank Bond and end no later than the fifth anniversary of such purchase date. If the take out agreement were to be exercised because the entire outstanding $499.9 million of demand bonds was "put" and not resold, the State would be required to pay $99.97 million a year for five years under the installment loan agreement plus interest based on the base rate plus 1% for the first 180 days and the base rate plus 2% for the second 180 days. In years two through five, the interest calculation is the base rate plus 3% on the remaining principal. At June 30, 2009 the base rate was 3.25% (the prime rate).

The current expiration date of the Agreements is December 11, 2009 (series 2002B) and November 30, 2015 (series 2002C through 2002F). The Banks for series C through F have the option to terminate its commitment on October 1, 2009, or October 1, 2014 by providing adequate notice of their intentions. The Bank for series 2002B has no optional termination provision. The bonds are not subject to mandatory tender for purchase as a result of immediate termination of the liquidity agreements. Failure by the State to purchase bonds tendered for purchase results in the bonds bearing interest at a floating rate indexed to unsecured commercial paper for 75 days continuing thereafter at an interest rate of 12%.

Component Units

University of North Carolina System

With regards to the following demand bonds, the issuer has not entered into take out agreements, which would convert the demand bonds not successfully remarketed into another form of long-term debt.

The University of North Carolina at Chapel Hill - General Revenue, Series 2001B and 2001C

In 2001 the University issued two series of variable rate demand bonds in the amount of $54.97 million (2001B) and $54.97 million (2001C) that each has a final maturity date of December 1, 2025. The bonds are subject to mandatory sinking fund redemption on the interest payment date on or immediately preceding each December throughout the term of the bonds. The proceeds of these issuances were used to provide funds to refund in advance of their maturity the following issues: Ambulatory Care Clinic, Series 1990; Athletic Facilities, Series 1998; Carolina Inn, Series 1994; School of Dentistry, Series 1995; Kenan Stadium, Series 1996; and Parking System, Series 1997C. While bearing interest at a weekly rate, the bonds are subject to purchase on demand with seven days notice and delivery to the University's Remarketing Agents, J.P. Morgan Chase (2001B) and Bank of America, N.A. (2001C). Effective September 23, 2008, J.P. Morgan Chase replaced Lehman Brothers, Inc.

The University entered into a new line of credit agreement in the amount of $300 million with Wachovia Bank, N.A. on September 21, 2006. Under the new line of credit agreement, the University is entitled to draw amounts sufficient to pay the principal and accrued interest on variable rate demand bonds or commercial paper bonds delivered for purchase. Under the new line of credit agreement, the University may request that Wachovia Bank, N.A. increase the commitment by increments of $25 million for a total commitment of up to $400 million. A request for increase is subject to the Bank's sole discretion, and the University cannot be in default under the agreement at the time of the request. During the fiscal year 2008-09, Wells Fargo & Co. purchased Wachovia Bank, N.A., but the line of credit agreement remains in place under original terms and conditions.

The University is required to pay a quarterly facility fee for the line of credit in the amount of 0.08% per annum based on the size of the commitment. If a long-term debt rating assigned by Standard & Poor's (S&P), Fitch Ratings (Fitch), or Moody's Investors Service (Moody's) is lowered, the facility fee assigned to the lowest rating in the below table shall apply:

S&P	Fitch	Moody's	Facility Fee
AA	AA	Aa2	0.10%
AA-	AA-	Aa3	0.11%
A+	A+	A1	0.14%
A	A	A2	0.18%

In the event that the Bank increases the available commitment prior to the due date for payment of a facility fee, upon request by the University as referenced in the prior paragraph, the University must pay a supplemental fee based on the facility fee applied to the amount of the increase at the time of commitment to increase. The University will also pay an accrued interest fee equal to the amount of accrued interest, at the time of purchase of the bonds, multiplied by the prime rate multiplied by the ratio of the number of days from the date of purchase of the bonds until the date of payment of the accrued interest to 365 days.

Under the line of credit agreement, draws to purchase bonds will accrue interest at the prime rate payable on the same interest date as provided in the Trust Agreement for the original bonds. The University is required to begin making a series of ten fully amortizing semi-annual principal payments on bonds held by the Bank six months after the date of purchase. Commercial paper bonds held by the Bank may be rolled over for a period of 180 days and must be reduced by $1/10^{th}$ of the original amount of the commercial paper bonds for a period of up to 10 rollovers. All outstanding principal and accrued but unpaid interest is due in full at the maturity of the line of credit.

The line of credit agreement expires on September 21, 2011 and is subject to covenants customary to this type of transaction, including a default provision in the event that the University's long-term bond ratings were lowered to below a BBB- for S&P, BBB- for Fitch, and Baa3 for Moody's.

North Carolina Central University – Revenue Bonds Series 2003A

In October of 2003, the North Carolina Capital Facilities Finance Agency issued Student Housing Facilities Revenue Demand Bonds ($21.48 million Variable Rate Revenue Demand Bonds, Series 2003A) that have a maturity date of October 1, 2034. The issuer, the North Carolina Capital Facilities Finance Agency, loaned the proceeds of the Series 2003 Bonds to the North Carolina Central University Real Estate Foundation, Inc. (Foundation). The Foundation used the proceeds to finance the costs of building a student housing facility at North Carolina Central University, to fund a debt service reserve fund for the 2003A Bonds, to pay a portion of the interest on the bonds during construction of the project, and to pay certain costs of issuance of the bonds. The 2003A Bonds are subject to mandatory sinking fund redemption at the principal amount on the interest payment dates.

The Student Housing Facilities Revenue Demand Bonds (Series 2003) has an Irrevocable Letter of Credit (LOC) for $21.82 million. The LOC is to secure the payment of the principal and purchase price of interest on the Series 2003 Bonds. The LOC was issued by Wachovia Bank, N.A. and expired on October 15, 2006. The LOC may be extended by request from the Foundation by delivering a notice of extension to the Trustee with a new expiration date. The LOC was subsequently extended until December 31, 2009. At June 30, 2009, the LOC rate for the bonds was 1.5% and no amounts were drawn on it.

The Foundation paid Wachovia Bank, N.A. a commitment fee of $109 thousand for the letter of credit on the date the bonds were issued. If the Foundation terminates the letter of credit on or before August 31, 2009, then the Foundation must pay a termination fee of $25 thousand. The Bonds are not under a take-out agreement; however, in the event of termination 100% of the unpaid principal will be due and payable plus any unpaid and accrued interest.

Under the LOC agreement, the proceeds of each drawing under the LOC to pay the portion of the purchase price of Series 2003 bonds allocable to principal will constitute a tender advance and must be reimbursed as provided in the agreement. The Foundation is required to repay each tender advance to Wachovia Bank, N.A. plus an interest rate of prime plus 1%. According to the Reimbursement Agreement Amendment dated May 2008, the amount of any tender advance made is repaid based on the earliest to occur of the date the credit provider bonds purchased pursuant to such tender advances are remarketed, the close of business on the date that is 366 days after the tender was made, and/or the termination date.

The Student Housing Facilities Revenue Demand Bonds (Series 2003) has a remarketing fee. The remarketing fee is an upfront charge to reset the interest rates on a weekly basis. The Remarketing Agent is Wachovia Bank, N.A. for the Series 2003A Bonds. At June 30, 2009, the remarketing fee rate for the bonds was 0.13%.

With regard to the following demand bonds, the issuer has entered into take out agreements, which would convert the demand bonds not successfully remarketed into another form of long-term debt.

North Carolina State University - General Revenue Bonds, Series 2003B

On June 20, 2003 the University issued tax-exempt variable rate revenue demand bonds in the amount of $45.66 million that have a final maturity date of October 1, 2027. The bonds are subject to mandatory sinking fund redemption that began on October 1, 2004. The University's proceeds of this issuance were used to pay a portion of the costs of certain improvements on the campus of the University, to refund certain debt previously incurred for that purpose, and to pay the costs incurred in connection with the issuance of the 2003B bonds.

While bearing interest at a weekly rate, the bonds are subject to purchase on demand with seven days notice and delivery to the paying agent, The Bank of New York Mellon. Upon notice from the paying agent, the Remarketing Agent, Wachovia Bank, N.A., has agreed to exercise its best efforts to remarket the bonds for which a notice of purchase has been received.

Under a Standby Bond Purchase Agreement (Agreement) between the Board of Governors of the University of North Carolina and Bayerische Landesbank, a Liquidity Facility has been established for the Trustee (The Bank of New York Mellon) to draw amounts sufficient to pay the purchase price and accrued interest on bonds delivered for purchase when remarketing proceeds or other funds are not available. This Agreement requires a commitment fee equal to 0.13% of the available commitment, payable quarterly in arrears, beginning on July 1, 2003 and on each October 1, January 1, April 1, and July 1 thereafter until the expiration date or the termination date of the Agreement.

Under the Agreement, any bonds purchased through the Liquidity Facility become Liquidity Provider Bonds and shall, from the date of such purchase and while they are Liquidity Provider Bonds, bear interest at the Liquidity Provider rate (the greater of the bank prime commercial lending rate and federal funds rate plus 0.5%). Upon remarketing of Liquidity Provider Bonds and the receipt of the sales price by the Liquidity Provider, such bonds are no longer considered Liquidity Provider Bonds. Payment of the interest on the Liquidity Provider Bonds is due the first business day of each month in which Liquidity Provider Bonds are outstanding. At June 30, 2009, there were no Liquidity Provider Bonds held by the Liquidity Facility. The original Liquidity Facility expiration date has been extended and is scheduled to expire on November 30, 2015, unless otherwise extended based on the terms of the Agreement.

Upon expiration or termination of the Agreement, the University is required to redeem (purchase) the Liquidity Provider Bonds held by the Liquidity Facility in twelve quarterly installments, beginning the first business day of January, April, July, or October, whichever first occurs on or following the Purchase Date along with accrued interest at the Liquidity Provider rate. In the event the entire issue of $44.09 million of demand bonds was "put" and not resold, the University would be required to pay $15 million a year for three years under this agreement assuming a 3.25% interest rate.

North Carolina State University - General Revenue Bonds, Series 2008A

On July 10, 2008 the University issued tax-exempt variable rate revenue demand bonds in the amount of $66.61 million that have a final maturity date of October 1, 2028. The bonds are subject to mandatory sinking fund redemption that begins on October 1, 2014. The University's proceeds of this issuance were used to pay a portion of the costs of certain improvements on the campus of the University, to refund certain debt previously incurred for that purpose, and to pay the costs incurred in connection with the issuance of the 2008A bonds.

While bearing interest at a weekly rate, the bonds are subject to purchase on demand with seven days notice and delivery to the paying agent, The Bank of New York Mellon. Upon notice from the paying agent, the Remarketing Agent, Citigroup Global Markets Inc, has agreed to exercise its best efforts to remarket the bonds for which a notice of purchase has been received.

Under a Standby Bond Purchase Agreement (Agreement) between the Board of Governors of the University of North Carolina and Bank of America, N.A., a Liquidity Facility has been established for the Trustee (The Bank of New York Mellon) to draw amounts sufficient to pay the purchase price and accrued interest on bonds delivered for purchase when remarketing proceeds or other funds are not available. This Agreement requires a commitment fee equal to 0.2% of the available commitment, payable quarterly in arrears, beginning on October 1, 2008 and on each October 1, January 1, April 1 and July 1 thereafter until the expiration date or the termination date of the Agreement.

Under the Agreement, any bonds purchased through the Liquidity Facility become Bank Bonds and shall, from the date of such purchase and while they are Bank Bonds, bear interest at the Base Rate (the greater of the bank prime commercial lending rate and federal funds rate plus 3%) for thirty days. For the period of 31 through 60 days after purchase, the Bank Bonds bear interest at the Base Rate plus one percent. Upon remarketing of Bank Bonds and the receipt of the sales price by the Liquidity Provider, such bonds are no longer considered Bank Bonds. Payment of the interest on the Bank Bonds is due the first business day of each month in which Bank Bonds are outstanding. At June 30, 2009, there were no Bank Bonds held by the Liquidity Facility. The Liquidity Facility is scheduled to expire on July 10, 2011, unless otherwise extended based on the terms of the Agreement.

After the purchase of the Bank Bonds, or expiration or termination of the Agreement, the University is required to redeem (purchase) the Bank Bonds held by the Liquidity Facility in six semi-annual installments, beginning the first business day of the month which next occurs on or following 61 days after the Purchase Date along with accrued interest at the Bank Bond rate plus two percent. In the event the entire issue of $66.61 million of demand bonds was "put" and not resold, the University would be required to pay $24 million a year for three years under this agreement assuming a 5.25% interest rate.

With regard to the following demand bonds, the issuer has entered into take out agreements, which would convert the demand bonds not successfully remarketed into another form of long-term debt, with the exception of Series 2009A Revenue Refunding bonds, for which the University of North Carolina Hospitals acts as its own liquidity facility.

University of North Carolina Hospitals at Chapel Hill - Revenue Bonds, Series 2001A and Series 2001B

On January 31, 2001, the Hospitals issued two series of tax-exempt variable rate demand bonds in the amount of $55 million (2001A) and $55 million (2001B) that have a final maturity date of February 15, 2031. The bonds are subject to mandatory sinking fund redemption that began on February 15, 2002. A portion of the proceeds was used to reimburse the Hospitals for $75 million spent allowing the University of North Carolina (UNC) Health Care System to acquire controlling interest in Rex Healthcare Inc. The remaining proceeds are being used for the renovation of space vacated after the opening of the North Carolina Women's Hospital, North Carolina Children's Hospital, and associated support services. While initially bearing interest in a daily mode, the mode on these bonds may change to a weekly rate, a unit pricing rate, a term rate or a fixed rate.

While in daily mode, the bonds are subject to purchase on any business day upon demand by telephonic notice of tender to the Remarketing Agent on the purchase date and delivery to the bond Tender Agent, Wachovia Bank, N.A. The Hospitals' Remarketing Agents, Merrill Lynch, Pierce, Fenner & Smith Incorporated (Series 2001A) and Banc of America Securities LLC (Series 2001B) have agreed to exercise their best efforts to remarket bonds for which a notice of purchase has been received. The quarterly remarketing fee is payable in arrears and is equal to either 0.05% or 0.08% of the outstanding principal amount of the bonds assigned to each agent, depending upon their performance in comparison to an established benchmark. During the 2008-09 fiscal year, Bank of America, N.A. purchased Merrill Lynch & Co.

Under separate Standby Bond Purchase Agreements for the Series 2001A and Series 2001B (Agreements) between the Hospitals and Landesbank Hessen-Thuringen Girozentrale, a Liquidity Facility has been established for the Tender Agent to draw amounts sufficient to pay the purchase price and accrued interest on bonds delivered for purchase when remarketing proceeds or other funds are not available. These Agreements require an adjustable facility fee based on the long-term rating of the bonds, which is calculated as a percentage of the available commitment. Payments are made quarterly in arrears, on the first business day of each July, October, January, and April thereafter until the expiration date or the termination date of the Agreements. For the past fiscal year the percentage was 0.25% with the long-term agreement that became effective on July 11, 2005. This agreement has been extended to October 11, 2014.

Under the Agreements, any bonds purchased through the Liquidity Facility become Bank Bonds and shall, from the date of such purchase and while they are Bank Bonds, bear interest at the formula rate (base rate equal to the higher of the prime rate for such day or the sum of 0.5% plus the federal funds rate) subject to a maximum rate as permitted by law. Upon remarketing of Bank Bonds and the receipt of the sales price by the Liquidity Provider, such bonds are no longer considered Bank Bonds. Payment of the interest on the Bank Bonds is due quarterly (the first business day of January, April, July and October) for each period in which Bank Bonds are outstanding. At June 30, 2009 there were no Bank Bonds held by the Liquidity Facility.

Included in the Agreements is a take-out provision, in case the Remarketing Agent is unable to resell any bonds that are "put" within 90 days of the "put" date. In this situation, the Hospitals is required to redeem the Bank Bonds held by the Liquidity Facility. The agreements allow the Hospitals to redeem Bank Bonds in equal quarterly installments, on the first business day of January, April, July and October. The payments will commence with the first business day of any such month that is at least 90 days following the applicable Purchase Date of the Bank Bond and end no later than the fifth anniversary of such Purchase Date. If the take out agreement were to be exercised because the entire outstanding $101 million of demand bonds was "put" and not resold, the Hospitals would be required to pay $21.97 million a year for five years under the installment loan agreement assuming an 3.25% prime interest rate.

The current expiration date of the Agreements is December 31, 2015. The Liquidity Provider has the option to terminate its commitment on October 11, 2011, or October 11, 2014 by providing adequate notice of its intention. The Hospitals may request additional extensions of at least one year from the previous termination date. Extensions are at the discretion of Liquidity Provider.

University of North Carolina Hospitals at Chapel Hill - Revenue Refunding Bonds, Series 2003A and Series 2003B

On February 13, 2003, the Hospitals issued two series of tax-exempt variable rate demand bonds in the amount of $63.77 million (2003A) and $34.25 million (2003B) that have a final maturity date of February 1, 2029. The bonds are subject to mandatory sinking fund redemption that began on February 1, 2004. The proceeds were used to advance refund $88.33 million of the Series 1996 Bonds. While initially bearing interest in a weekly mode, the mode on these bonds may change to a daily rate, a unit pricing rate, a term rate or a fixed rate.

While in the weekly mode, the bonds are subject to purchase on demand with seven days' notice to the Remarketing Agent and delivery to the bond Tender Agent, Wachovia Bank, N.A. The Hospitals' Remarketing Agents, Banc of America Securities LLC (Series 2003A) and Wachovia Bank, N.A. (Series 2003B) have agreed to exercise their best efforts to remarket bonds for which a notice of purchase has been received. The quarterly remarketing fee is payable in arrears and is equal to 0.08% of the outstanding principal amount of the bonds assigned to the Remarketing Agent for Series 2003A and is equal to 0.07% of the outstanding principal amount of the bonds assigned to the Remarketing Agent for Series 2003B.

Under separate Standby Bond Purchase Agreements for the Series 2003A and Series 2003B (Agreements) between the Hospitals and Bank of America, N.A. (Series 2003A) or Wachovia Bank, N.A. (Series 2003B) a Liquidity Facility has been established for the Tender Agent to draw amounts sufficient to pay the purchase price on bonds delivered for purchase when remarketing proceeds or other funds are not available. These Agreements require a facility fee equal to 0.22% of the available commitment for Series 2003A and Series 2003B, payable quarterly in advance, beginning on February 13, 2003, and on each February 1, May 1, August 1, and November 1 thereafter until the expiration date or the termination date of the Agreements. In April 2009, a new agreement was signed with Wachovia Bank, N.A., to increase the liquidity commitment rate to 0.85% effective August 2009.

Under the Agreements, any bonds purchased through the Liquidity Facility become Bank Bonds and shall, from the date of such purchase and while they are Bank Bonds, bear interest at the Bank Bond interest rate (for Series 2003A, the rate equals

London Inter-Bank Offered Rate (LIBOR) plus 2.5% for the first 90 days and then equals LIBOR plus 4%; for Series 2003B, the rate equals prime rate plus 1% for the first 90 days and then equals prime plus 2%) subject to a maximum rate as permitted by law. Upon remarketing of Bank Bonds and the receipt of the sales price by the Liquidity Provider, such bonds are no longer considered Bank Bonds. Payment of the interest on the Bank Bonds is on the first business day of each month for each period in which Bank Bonds are outstanding. At June 30, 2009 there were no Bank Bonds held by the Liquidity Facility.

Included in the Agreements is a take-out provision, in case the Remarketing Agent is unable to resell any bonds that are "put" within 90 days of the "put" date. In this situation, the Hospitals is required to redeem the Bank Bonds held by the Liquidity Facility. The Series 2003A agreement allows the Hospitals to redeem Bank Bonds in twelve equal quarterly installments beginning on the first February 1, May 1, August 1 or November 1 that occurs at least 90 days following the applicable Purchase Date of the Bank Bond. If the take-out agreement were to be exercised because the entire outstanding $61.88 million of demand bonds was "put" and not resold, the Hospitals would be required to pay $22.10 million a year for three years under the installment loan agreement assuming a 4.32% interest rate (LIBOR plus 4%). The Series 2003B agreement allows the Hospitals to redeem Bank Bonds in 36 equal monthly installments, on the first business day of each calendar month after the loan date. Payments commence with the first business day of any such month that is at least 120 days following the applicable Purchase Date of the Bank Bond. If the take out agreement were to be exercised because the entire outstanding $33.25 million of demand bonds was "put" and not resold, the Hospitals would be required to pay $12 million a year for three years under the installment loan agreement assuming a 5.25% interest rate (prime plus 2%).

The current expiration date of the Series 2003A Agreement is July 1, 2010 and July 31, 2010 for the Series 2003B Agreement. The Hospitals may request additional extensions, which are approved at the discretion of the Liquidity Provider

University of North Carolina Hospitals at Chapel Hill - Revenue Refunding Bonds-Series 2009A

On February 12, 2009, the Hospitals issued series 2009A tax-exempt variable rate demand bonds in the amount of $44.29 million that have a final maturity date of February 1, 2024. The bonds are subject to mandatory sinking fund redemption that begins on February 1, 2010. The proceeds were used to advance refund $43.51 million of the Series 1999 Bonds. While initially bearing interest in a weekly mode, the mode on these bonds may change to a daily rate, a unit pricing rate, a term rate or a fixed rate.

While in the weekly mode, the bonds are subject to purchase on demand upon delivering irrevocable written notice of tender or irrevocable telephonic notice of tender to the Remarketing Agent not later than 4:00 p.m. on a Business Day not less than seven days before the Purchase Date and upon delivering such Series 2009A bonds to the bond Tender Agent, U.S Bank, N.A., no later than 12:00 noon on such Purchase Date. The Hospitals' Remarketing Agents, Banc of America Securities LLC has agreed to exercise their best efforts to remarket bonds for which a notice of purchase has been received. The quarterly remarketing fee is payable in arrears and is equal to 0.09% of the weighted average daily principal amount of Series 2009A Bonds outstanding during such periods in which the Series 2009A bonds are Variable Rate Bonds.

Under a separate Liquidity Agreement with the Trustee, UNC Hospitals has established itself as Liquidity Facility for the Tender Agent to draw amounts sufficient to pay the purchase price on bonds delivered for purchase when remarketing proceeds or other funds are not available. Upon receipt of any notice from the Remarketing Agent that there is a Projected Funding Amount on the Business Day prior to each Purchase Date or Mandatory Purchase Date, and upon receipt of written demand for payment from the Tender Agent by noon on each Purchase Date or Mandatory Purchase Date, UNC Hospitals shall wire to the Tender Agent, in immediately available funds, an amount equal to the Actual Funding Amount, which shall be equal to the Purchase Price of all Series 2009A bonds tendered or deemed tendered, less the aggregate amount of remarketing proceeds received by the Remarketing Agent, by not later than 2:00 p.m. on the Purchase Date or Mandatory Purchase Date.

State Education Assistance Authority

Guaranteed Student Loan Revenue Bonds

With regards to the following demand bonds, the issuer has not entered into take out agreements, which would convert the demand bonds not successfully remarketed into another form of long-term debt.

Series 2005-A. On October 27, 2005, the Authority issued Guaranteed Student Loan Revenue Bonds, Series 2005-A in the amount of $506.3 million and consisting of tax-exempt and taxable bonds. The proceeds of this issuance were used to finance student loans, refund the Authority's outstanding Series 1995-A bonds, make a deposit into the operating fund, and pay issuance costs. Of this series $71.75 million of tax-exempt bonds remained outstanding as of June 30, 2009. This series of bonds matures on September 1, 2035. While bearing interest at a weekly rate, the bonds are subject to purchase on demand with seven days' notice to the Tender Agent.

Payment of principal and interest on the Series 2005-A bonds is insured by a financial guaranty insurance policy by Ambac Assurance Corporation. The Authority has entered into a standby bond purchase agreement with a commercial bank. Pursuant to this agreement, the respective bank has agreed to purchase any bonds that have been tendered for purchase during the term of the agreement. The Authority is paying down the remaining tranche which entered "bank bond" mode after the expiration of the standby bond purchase agreement on January 29, 2009.

Series 2008-2. On October 30, 2008, the Authority issued Guaranteed Student Loan Revenue and Refunding Bonds, Series 2008-2 in the amount of $309.86 million consisting of two tranches of tax-exempt bonds. Series A-1 in the amount of $150 million matures on July, 1 2036, but $25 million must be retired by mandatory sinking fund redemption on July 1, 2016. Series A-2 in the amount of $159.86 million matures on September 1, 2035. The proceeds of this issuance were used to finance student loans, refund the Authority's outstanding Series 2006-Q and 2005-A bonds, make deposits into the reserve funds, make a deposit into the operating fund, and pay issuance costs. While bearing interest at a weekly rate, the bonds are subject to purchase on demand with seven day's notice to the Tender Agent.

Series 2008-3. On November 21, 2008, the Authority issued Guaranteed Student Loan Revenue and Refunding Bonds, Series 2008-3 in the amount of $105.95 million consisting of two tranches of tax-exempt bonds. Series A-1 in the amount of $30 million matures on July 1, 2027. Series A-2 in the amount of 75.95 million matures on September 1, 2035. The proceeds of this issuance were used to finance student loans, refund the Authority's outstanding Series 1997-E and 2005-A bonds, make deposits into the reserve fund, make a deposit into the operating fund, and pay issuance costs. While bearing interest at a weekly rate, the bonds are subject to purchase on demand with seven day's notice to the Tender Agent.

Series 2008-5. On December 12, 2008, the Authority issued Guaranteed Student Loan Revenue and Refunding Bonds, Series 2008-5 in the amount of $159.86 million consisting of one tranche of tax-exempt bonds. This series of bonds matures on September 1, 2035. The proceeds of this issuance were used to finance student loans, refund the Authority's outstanding Series 2005-A bonds, make deposits into the reserve funds, make a deposit into the operating fund, and pay issuance costs. While bearing interest at a weekly rate, the bonds are subject to purchase on demand with seven day's notice to the Tender Agent.

Each of the 2008 variable rate demand bonds described herein are being remarketed pursuant to remarketing agreements, and each is backed by an irrevocable letter of credit in favor of The Bank of New York Mellon as bond trustee. Three different banks issued the letters of credit (RBC Bank, Bank of America, N.A., and BB&T Corp.). There have been no draws on the letters of credit, but there are "Facility Fees" payable to the issuing banks set at 0.9%.

E. Interest Rate and Basis Swaps

Primary Government

Governmental Activities

Objective. As a means to lower its borrowing costs and increase its savings when compared to fixed-rate refunding bonds at the time of issuance in December 2002, the State entered into two interest rate swaps in connection with its $499.87 million Variable Rate General Obligation Refunding Bonds, Series 2002B-F. The intention of the swap agreements was to effectively change the State's interest rate on the bonds to a synthetic fixed rate of 3.28% (Swap 1) and 3.09% (Swap 2). For comparison, the State sold fixed rate bonds on the same day as the swaps, with the same final maturity, at an interest rate of 4.45%.

In March 2005, the State entered into basis rate swap agreements and related swaptions with three separate counterparties to lower its borrowing costs when compared to fixed rate refunding bonds. The swaption component is disclosed and valued in a separate section within this note (see section F). The bonds associated with basis swaps were as follows (dollars in thousands):

Bonds Associated with Basis Swaps	Principal Amount	Average Coupon	Call Date
Public Improvement, Series 2003A	$ 171,000	4.89%	3/1/2013
Public Improvement, Series 2003B	169,955	4.87%	4/1/2013
Public Improvement, Series 2004A	335,000	4.86%	3/1/2014
Total	$ 675,955		

Terms - Swaps 1 and 2. The bonds and the related swap agreements mature on June 1, 2019 (Swap 1) and June 1, 2017 (Swap 2) and the combined swaps' notional amount of $499.87 million matches the $499.87 million variable-rate bonds. The swaps were entered into at the same time the bonds were issued (December 2002). Starting in fiscal year 2012, the combined notional value of the swaps and the combined principal amount of the associated debt begin to decline. Under the swaps, the State pays the counterparties a fixed payment of 3.28% (Swap 1) and 3.09% (Swap 2) and receives a variable payment computed at 64% of the LIBOR. Conversely, the bonds' variable-rate coupons are closely associated with the Securities Industry and Financial Markets Swap Index (SIFMA).

Terms - 2005 Basis Swaps. The 2005 basis swap agreements were entered into on March 9, 2005 with an effective date of March 30, 2005. The related bonds have serial maturities with Series 2003A having a final maturity on March 1, 2026; Series 2003B and 2004A have final maturities on April 1, 2023 and March 1, 2023, respectively. The basis swap agreements mature on March 1, 2026. The swaps' combined notional amount of $675.96 million matches the $675.96 million fixed rate bonds. Under the terms of the basis rate swap and swaption agreement, the State will pay the SIFMA to the counterparties and will receive 70% of LIBOR plus a fixed spread of 69 basis points (41 attributable to basis swap and 28 basis points for the swaption).

Fair value. Because interest rates have declined since execution of Swaps 1 and 2, the swaps have negative fair values of $18.48 million (Swap 1) and $16.25 million (Swap 2) at June 30, 2009. The 2005 basis rate swaps had positive valuations at June 30, 2009 of: $4 million (Counterparty 1), $2.6 million (Counterparty 2), and $1.3 million (Counterparty 3). The mark-to-market valuations were established by market quotations from the counterparties, representing estimates of the amounts that would be paid for replacement transactions.

Credit risk. As of June 30, 2009, the swaps did not expose the State to credit risk because the swaps had negative aggregate fair values. However, should interest rates change and the aggregate fair value of the swaps become positive, the State would be exposed to credit risk in the amount of the derivatives' aggregate fair value. For the basis swaps, the aggregate fair value is the individual fair value of the swap plus the fair value of the associated swaptions which are disclosed in Section F of Note 7. The current counterparty ratings for each swap are presented in the table below:

Swap Counterparty	Moody's	S&P	Fitch
Swap 1	Aa1	A+	A+
Swap 2	Aa1	AAA	-
Basis Swap Counterparty 1	Aa2	AA	AA
Basis Swap Counterparty 2	A2	A	A+
Basis Swap Counterparty 3	Aa1	AA-	AA-

To mitigate the potential for credit risk, if the counterparty's credit quality falls to a specified rating, the counterparty will be required to collateralize a portion (up to 100%) of the fair value. For Swap 1, if the counterparty's credit quality falls to A1 as determined by Moody's or A+ as determined by either S&P or Fitch and their exposure exceeds $5 million, then the swap will be collateralized by the counterparty with cash, U.S. government or agency securities, or other collateral acceptable to the State. For Swap 1, although the counterparty's S&P and Fitch ratings have fallen to A+, the valuation exposure threshold has not been met to require the counterparty to post any collateral. For Swap 2, if the credit quality falls to Aa1 (Moody's) or AA+ (S&P) and their exposure exceeds $10 million, then the swap will be collateralized by the counterparty with cash, U.S. government or agency securities, or other collateral acceptable to the State. For Swap 2, although the counterparty's Moody's rating has fallen to Aa1, the valuation exposure threshold has not been met to require the counterparty to post any collateral. For the basis swaps, if the counterparty's credit quality is rated lower than Baa1 (Moody's), BBB+ (S&P), or BBB+ (Fitch) by two of the three rating agencies, then the swap will need to be collateralized by the counterparty with cash, U.S. government or agency securities, or other collateral acceptable to the State (Fitch credit ratings only apply to counterparty 1). If the counterparty is required to collateralize a portion of the derivative, then the collateral will be posted with a third party custodian or secured party.

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An additional termination event occurs if the counterparty fails to maintain: for Swap 1, at least two ratings of at least Baa1 (Moody's) or BBB+ (S&P and Fitch); for Swap 2, at least one rating of at least Baa3 (Moody's) or BBB- (S&P). An additional termination event for the basis swaps occurs if counterparty 1 or 3 has one or more issues of rated, unsecured, unenhanced senior debt or long-term deposits outstanding and none of such issues has at least two ratings of at least Baa2 or higher as determined by Moody's, or BBB or higher as determined by S&P or Fitch. For counterparty 2, an additional termination event occurs if it has one or more issues of rated, unsecured, unenhanced senior debt outstanding and none of such issues has at least two ratings of Baa2 or higher (Moody's), BBB or higher (S&P) or counterparty 2 fails to have a rating on long-term, unsecured, unenhanced senior debt.

Basis risk and termination risk. Swaps 1 and 2 expose the State to basis risk should the relationship between LIBOR and SIFMA converge, changing the synthetic rate on the bonds. The effect of this difference in basis is indicated by the difference between the intended synthetic rates of 3.28% (Swap 1) and 3.09% (Swap 2) and the synthetic rates as of June 30, 2009 of 3.29% (Swap 1) and 3.09% (Swap 2). As of June 30, 2009, the average rate on the State's variable rate bonds was 0.2%, whereas 64% of LIBOR was 0.2%. The swaps may be terminated by the State with 15 days notice and the counterparties can only terminate the swaps if the State's credit rating falls below Baa1 (Moody's), or BBB+ (S&P or Fitch) for Swap 1, and on Swap 2, below Baa3 (Moody's) or BBB- (S&P or Fitch), or an Event of Default occurs.

2005 Basis Swaps: These swaps expose the State to basis risk should the relationship between the two variable indexes SIFMA and LIBOR converge, which would affect the amount of interest savings realized. The State pays SIFMA and receives 70% of LIBOR plus 69 basis points (28 basis points relate to swaptions) on the notional amounts by counterparty. As of June 30, 2009, there was no basis risk as the State was paying SIFMA equal to 0.35% and receiving 0.91% (70% of LIBOR plus 69 basis points). LIBOR is 0.31% at June 30, 2009. The basis swaps and swaptions may be optionally terminated by the State with two days notice for counterparties 1 and 2 or with five days notice for counterparty 3. The counterparties can only terminate if the State, at any time during the term of the swap transaction, fails to maintain by at least two rating agencies, ratings of at least Baa2 or higher as determined by Moody's, or BBB or higher as determined by S&P or Fitch (Fitch does not apply to counterparty 2).

Market-access risk/Rollover risk. Swap 1 and Swap 2 are for the term of the Bonds and therefore there is no market-access risk or rollover risk. The 2005 basis rate swaps terminate at approximately the same time as the associated serial bonds mature (March 1, 2026; March 1, 2023; and April 1, 2023) and thus no rollover risk exists.

Component Units

University of North Carolina System

University of North Carolina at Chapel Hill

Swap 1

Objective. In order to protect against the risk of interest rate changes, effective October 3, 2000, the University entered into an interest rate swap agreement with Lehman Brothers Special Financing, Inc. (Lehman Brothers) related to $22 million of The University of North Carolina at Chapel Hill Variable Rate Housing System Revenue Bonds, Series 2000. This series of bonds was refunded in its entirety by the issuance of the University's Variable Rate General Revenue Demand Bonds, Series 2001B (2001B Bonds), and the interest rate swap agreement was amended to reflect the refunding.

Terms. Under this amended agreement, Lehman Brothers pays the University interest on the notional amount based on the SIFMA on a quarterly basis. On a semiannual basis, the University pays Lehman Brothers interest at the fixed rate of 5.24%. The notional amount of the swap reduces annually in conjunction with the 2001B Bonds; the reductions began in November 2002 and end in November 2025. The swap agreement matures November 1, 2025. As of June 30, 2009, rates were as follows:

	Terms	Rates
Fixed payment to Lehman Bros.	Fixed	5.24%
Variable payment from Lehman Bros.	SIFMA	0.32%
Net interest rate swap payments		4.92%
Variable rate bond coupon payments		0.17%
Synthetic interest rate on bonds		5.09%

During fiscal year 2008-09, Lehman Brothers, filed for bankruptcy and no longer disburses the variable payment scheduled under the agreement to the University. To account for this consideration and as allowed under the swap documents, the University nets its scheduled fixed payment against that payment that should be received from Lehman Brothers, based upon SIFMA.

Fair value. As of June 30, 2009, the swap had a fair value of negative $3.68 million. The fair value was provided by the University's financial advisor, Prager, Sealy, & Co. Their method calculates the future net settlement payments required by the swap assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for LIBOR due on the date of each future net settlement on the swap.

Credit risk. As of June 30, 2009, the University was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the University would be exposed to credit risk in the amount of the derivative's positive fair value. Should the swap have a positive fair value of more than

$1 million, at that point Lehman Brothers would be required to collateralize 103% of their exposure. Lehman Brothers Holdings, guarantor of Lehman Brothers Special Financing, Inc., was rated A2 by Moody's, A by S&P, and AA+ by Fitch for unsecured long-term debt.

Basis risk. The University receives the SIFMA from Lehman Brothers and pays a floating rate to its bondholders set by the Remarketing Agent. The University incurs basis risk when its bonds begin to trade at a yield above the SIFMA. Basis risk also exists since swap payments are made quarterly while bond payments are made monthly. With the alternative tax structure of the swap, a change in tax law would trigger the swap being converted from a SIFMA swap to a percentage of LIBOR swap. This would introduce basis risk. If the weekly reset interest rates on the University's bonds are in excess of 65% of LIBOR, the University will experience an increase in debt service above the fixed rate on the swap to the extent that the interest rates on the bonds exceed 65% of LIBOR.

Termination risk. The swap agreement uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. Termination could result in the University being required to make an unanticipated termination payment. The swap terminates if the University or Lehman Brothers fails to perform under terms of the contract.

Swap 2

Objective. The University entered into an interest rate swap agreement with Wachovia Bank, N.A. on December 5, 2006, based on a notional amount of $100 million effective December 1, 2007, maturing in December 1, 2036. This transaction serves as a hedge of variable interest rates on a portion of the General Revenue 2001 B&C bonds and the University's outstanding balance of commercial paper. During the 2008-09 fiscal year, Wells Fargo & Co. purchased Wachovia Bank, N.A.

Terms. Under the agreement, Wachovia Bank, N.A. pays the University 67% of the one-month LIBOR index times the notional amount, payable monthly. The University pays Wachovia Bank, N.A. a fixed rate of 3.31% on the notional amount, payable monthly. The effective date of this swap was December 1, 2007. As of June 30, 2009, rates were as follows:

	Terms	Rates
Fixed payment to Wachovia	Fixed	3.31%
Variable payment from Wachovia	LIBOR	0.21%
Net interest rate swap payments		3.10%
Weighted average variable rates		0.01%
Synthetic interest rate on bonds		3.11%

Fair value. As of June 30, 2009, the swap had a fair value of negative $10.08 million. The fair value was developed by Wachovia Bank, N.A., and represents the amount that would be paid to (or received from) another swap dealer to assume the payments under the swap.

Credit risk. As of June 30, 2009, the University was not exposed to credit risk because the swap had a negative fair value. In the event that the swap carried a positive fair value for the University and in the event of a specified ratings downgrade of Wachovia Bank, N.A.'s unsecured long-term debt, Wachovia Bank, N.A. would be required to post collateral in the amount of the difference between the positive fair value of the swap and the thresholds in the below tables. The University is also subject to the same provisions. Wachovia Bank, N.A. was rated AA by S&P, AA- by Fitch and Aa2 by Moody's.

Moody's/S&P Ratings	Threshold
Aa3/AA- or above	$Infinity
A1/A+	$15 million
A2/A	$10 million
A3/A- or below	$0

Basis risk. Changes in swap interest rates and tax-exempt bond interest rates may differ, introducing basis risk in the event the swap is unwound and traditional fixed-rate debt is issued. In the event that the University issues variable rate debt to create synthetic fixed rate debt, the University will be paying a rate on the bonds that may not correlate with 67% of the one-month LIBOR index, altering the "fixed" cost of synthetic debt.

Termination risk. The swap agreement uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. Termination could result in the University being required to make an unanticipated termination payment. The swap terminates if the University or Wachovia Bank, N.A. fails to perform under terms of the contract.

Future swap. The University entered into an interest rate swap agreement with The Bank of New York Mellon for $150 million to be effective December 1, 2009. The University has the option to (1) issue variable rate bonds in December 2009, thereby effectively creating synthetic fixed-rate debt, or (2) unwind the swap, capturing the value of the movement of interest rates from the issuance date and issuing traditional fixed rate bonds.

North Carolina State University

Objective. In order to protect against the potential of rising interest rates, the University entered into two separate pay-fixed, receive-variable interest rate swaps at a cost anticipated to be less than what the University would have paid to issue fixed-rate debt.

Terms, fair values, and credit risk. The University's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in the associated bonds payable category. The terms, fair values, and credit ratings of the outstanding swaps as of June 30, 2009 were as follows (dollars in thousands):

Associated Bond Issue	Notional Amounts	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values	Swap Termination Date	Counterparty Credit Rating Moody's/S&P/Fitch
General Revenue 2003B	$24,655	6/20/2003	3.54%	75% of LIBOR	$(1,782)	10/01/2027	Aa3 / A+ /A+
General Revenue 2008A	50,000	9/1/2008	3.86%	SIFMA	(4,305)	10/01/2026	Aa1 / AA- /AA-
Total	$74,655				$(6,087)		

Because rates have changed since the effective dates of the swaps, both of the swaps have a negative fair value as of June 30, 2009. The negative fair value may be countered by a reduction in total interest payments required under the variable-rate bonds, creating lower synthetic interest rates. Because the coupons on the University's variable-rate bonds adjust to changing interest rates, the bonds do not have corresponding fair value increases. The fair values are the market values as of June 30, 2009.

As of June 30, 2009, the University was not exposed to credit risk related to positively valued swaps. The swap agreements require termination should the University's or the counterparty's credit rating fall below either Baa2 as issued by Moody's or BBB as issued by S&P or Fitch. Also, under the terms of the swap agreements, should one party become insolvent or otherwise default on its obligations, provisions permit the nondefaulting party to accelerate and terminate all outstanding transactions. To mitigate the potential for credit risk, if the counterparty's credit quality falls below A3 as determined by Moody's or A- as determined by S&P, the swap will be collateralized by the counterparty with cash, U.S. government or agency securities. If the counterparty is required to collateralize, then the collateral will be posted with a third party custodian or secured party. The swap agreements entered into by the University are held with separate counterparties. All the counterparties are rated A+ or better.

Basis risk. The University is exposed to basis risk on the swaps when the variable payment received is based on an index other than SIFMA. Should the relationship between LIBOR and SIFMA move to convergence, the expected cost savings may not be realized. As of June 30, 2009, the SIFMA rate was 0.35%, whereas 75% of LIBOR was 0.23%.

Termination risk. The University or the counterparty may terminate any of the swaps if the other party fails to perform under the terms of the contract. If any of the swaps are terminated, the associated variable-rate bonds would no longer carry synthetic interest rates. Also, if at the time of termination the swap has a negative fair value, the University would be liable to the counterparty for that amount.

Future swap. The University has also entered into a future dated interest rate swap agreement for $22.38 million to be effective March 1, 2017, on the General Revenue Series 2008A bonds.

North Carolina Central University

In October of 2003, the North Carolina Capital Facilities Finance Agency issued Student Housing Facilities Revenue Bonds ($21.48 million Variable Rate Revenue Demand Bonds, Series 2003A). The issuer, the North Carolina Capital Facilities Finance Agency, loaned the proceeds of the Series 2003 Bonds to the North Carolina Central University Real Estate Foundation, Inc. (Foundation). The Foundation used the proceeds to finance the costs of building a student housing facility at North Carolina Central University, to fund a debt service reserve fund for the 2003A Bonds, to pay a portion of the interest on the bonds during construction of the project, and to pay certain costs of issuance of the bonds.

Objective. As a means to lower its borrowing costs and increase its savings, when compared against fixed-rate refunding bonds at the time of issuance in October 2003, effective March 24, 2004, the Foundation entered into two interest rate swaps with Wachovia Bank, N.A., in connection with its $21.48 million Variable Rate Revenue Demand Bonds, Series 2003A. The intention of the swap agreements was to effectively change the interest rate on the bonds to a synthetic fixed rate of 3.52% (Swap 1) and 2.71% (Swap 2).

Terms. The bonds mature on October 1, 2034, and the related swap agreements mature on October 1, 2024 (Swap 1) and April 1, 2009 (Swap 2) and the combined swaps' notional amount of $17.18 million hedges 80% of the $21.48 million variable-rate bonds. The combined notional value of the swaps and the combined principal amount of the associated debt is declining. Under the swaps, the Foundation pays Wachovia Bank, N.A. a fixed rate of 3.52% (Swap 1) and 2.71% (Swap 2) and receives a variable rate at 70% and 100% of LIBOR and SIFMA, respectively. The bonds' variable-rate coupons are closely associated with the SIFMA.

Fair value. As of June 30, 2009, Swap 1 had a negative fair value of $685 thousand and Swap 2 expired in April 2009. The mark-to-market valuation was established by market quotations from Wachovia Bank, N.A. representing estimates of the amounts that would be paid upon terminating the transactions.

Credit risk. As of June 30, 2009, the Foundation was not exposed to credit risk because the swap had a negative fair value.

Basis risk and termination risk. Swap 1 exposes the Foundation to basis risk should the relationship between LIBOR and SIFMA converge, changing the synthetic rate on the bonds. The effect of this difference in basis is indicated by the difference between the intended synthetic rate of 3.52% and the actual rate of 3.99% (Swap 1) at June 30, 2009. As of June 30, 2009, the rate on the Foundation's Bonds was 0.27% whereas 70% of LIBOR was 0.2%. Swap 2 exposed the Foundation to basis risk upon the actual rate on the Foundation's Bond varying from the SIFMA. Termination could result in the Foundation being required to make an unanticipated termination payment. The swap agreement is terminated if the Foundation or Wachovia Bank, N.A. fails to perform under the terms of the contract.

Market-access risk/Rollover risk. Swap 1 exposes the Foundation to market-access and rollover risk when it matures on October 1, 2024, the date when the interest rate on the underlying debt returns to a variable rate. Swap 2 exposed the Foundation to market-access and rollover risk when it matured on April 1, 2009, the date when the interest rate on the underlying debt returned to a variable rate.

University of North Carolina Hospitals

Swap 1

Objective. In order to protect against the risk of interest rate changes, the Hospitals entered into an interest rate swap contract agreement with Bank of America, N.A. (BOA) on February 13, 2003. The agreement covers the Variable Rate Revenue Refunding Bonds, Series 2003A ($63.77 million) and Series 2003B ($34.25 million). The 2003 series of bonds partially refunded Fixed Rate Revenue Bonds, Series 1996.

Terms, fair values, and credit risk. Under this agreement, BOA pays the Hospitals interest on the notional amount based on 67% of the arithmetic mean of LIBOR (with a designated maturity of one month) on a monthly basis. Also on a monthly basis, the Hospitals pays BOA interest at the fixed rate of 3.48%. No cash was paid or received by the Hospitals upon initiation of the agreement. The notional amount of the swap reduces annually; the reductions began in February 2004 and end in February 2029.

The swap agreement terminates February 1, 2029. As of June 30, 2009, rates were as follows:

	Terms	2003A Rates	2003B Rates
Fixed payment to BOA	Fixed	3.48%	3.48%
Variable payment from BOA	LIBOR	0.21%	0.21%
Net interest rate swap payments		3.27%	3.27%
Variable rate bond payments		0.35%	0.27%
Synthetic interest rate on bonds		3.62%	3.54%

The swap agreement has a fair value of negative $9.22 million as of June 30, 2009. The negative fair value of the swap may be countered by reductions in total interest payments required under the variable-rate bond, creating lower synthetic rates. Because the coupons on the Hospitals' variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. BOA develops the mark-to-market value. Their method calculates the present value of the future net settlement payments required by the swap assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for LIBOR due on the date of each future net settlement on the swap.

As of June 30, 2009, the Hospitals is not exposed to credit risk because the swap has a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the Hospitals would be exposed to credit risk in the amount of the derivative's fair value. BOA's current long-term ratings are A+ by Fitch, Aa3 by Moody's, and A+ by S&P. At such time that their ratings fall below A3 for Moody's or below A- for S&P, BOA will be required to collateralize a portion of their exposure (up to 100%). The following instruments can serve as eligible collateral: Cash, U.S. Treasury Obligations, U.S. Government Agency Fixed Rate Fixed Maturity Securities, U.S. Government Agency Single Class Mortgage-Backed Securities, U.S. Treasury STRIPS and other U.S. Government Agency Mortgage-Backed Securities. Posted collateral received will be entered in one or more accounts with a domestic office of a commercial bank, trust company or financial institution organized under the laws of the United States (or any state or a political subdivision thereof).

Basis risk. The Hospitals receives 67% of one-month LIBOR Index from BOA and pays a floating rate to its bondholders set by the Remarketing Agent. The Hospitals incurs basis risk when its bonds trade at a yield above 67% of one-month LIBOR Index. If the relationship of the Hospitals' bonds trade to a percentage of LIBOR greater than 67%, the

Hospitals will experience an increase in debt service above the fixed rate on the swap.

Termination risk. The derivative contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Hospitals or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If the swap is terminated, the associated variable-rate bonds would no longer carry synthetic interest rates. Also, if at the time of termination the swap has a negative fair value, the Hospitals would be liable to the counterparty for that amount. Termination could result in the Hospitals being required to make an unanticipated termination payment.

Swap 2

Objective. In order to protect against the risk of interest rate changes, the Hospitals entered into an interest rate swap contract agreement with Bank of America, N.A. (BOA) on February 12, 2007 in anticipation of the issuance of the Series 2009A Bonds on February 12, 2009.

Terms, fair values, and credit risk. Under this agreement, BOA pays the Hospitals interest on the notional amount based on 67% of the arithmetic mean of the LIBOR (with a designated maturity of one month) on a monthly basis. Also on a monthly basis, the Hospitals pays BOA interest at the fixed rate of 3.61%. No cash was paid or received by the Hospitals upon initiation of the agreement. The notional amount of the swap reduces annually; the reductions began in February 2010 and end in February 2024.

The swap agreement terminates February 1, 2024. As of June 30, 2009, rates were as follows:

	Terms	2009A Rates
Fixed payment to BOA	Fixed	3.61%
Variable payment from BOA	LIBOR	0.21%
Net interest rate swap payments		3.40%
Variable rate bond payments		0.16%
Synthetic interest rate on bonds		3.56%

The swap agreement has a fair value of negative $3.99 million as of June 30, 2009. The negative fair value of the swap may be countered by reductions in total interest payments required under the variable-rate bond, creating lower synthetic rates. Because the coupons on the Hospitals' variable- rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. BOA develops the mark-to-market value. Their method calculates the present value of the future net settlement payments required by the swap assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for LIBOR due on the date of each future net settlement on the swap.

As of June 30, 2009, the Hospitals is not exposed to credit risk because the swap has a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the Hospitals would be exposed to credit risk in the amount of the derivative's fair value. BOA's current long-term ratings are A+ by Fitch, Aa3 by Moody's, and A+ by S&P. At such time that their ratings fall below A3 for Moody's or below A- for S&P, BOA will be required to collateralize a portion of their exposure (up to 100%). The following instruments can serve as eligible collateral: Cash, U.S. Treasury Obligations, U.S. Government Agency Fixed Rate Fixed Maturity Securities, U.S. Government Agency Single Class Mortgage-Backed Securities, U.S. Treasury STRIPS and other U.S. Government Agency Mortgage-Backed Securities. Posted collateral received will be entered in one or more accounts with a domestic office of a commercial bank, trust company or financial institution organized under the laws of the United States (or any state or a political subdivision thereof).

Basis risk. The Hospitals receives 67% of one-month LIBOR Index from BOA and pays a floating rate to its bondholders set by the Remarketing Agent. The Hospitals incurs basis risk when its bonds trade at a yield above 67% of one-month LIBOR Index. If the relationship of the Hospitals' bonds trade to a percentage of LIBOR greater than 67%, the Hospitals will experience an increase in debt service above the fixed rate on the swap.

Termination risk. The derivative contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Hospitals or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If the swap is terminated, the associated variable-rate bonds would no longer carry synthetic interest rates. Also, if at the time of termination the swap has a negative fair value, the Hospitals would be liable to the counterparty for that amount. Termination could result in the Hospitals being required to make an unanticipated termination payment.

North Carolina Housing Finance Agency

Objective. The Agency has entered into interest rate swaps in connection with its $73.91 million variable-rate revenue bonds associated with several series in its 1998 Home Ownership Revenue Bond Resolution as a means to lower its borrowing costs when compared against fixed-rate bonds at the time of issuance. The intention of the swap was to effectively lower the Agency's interest rate on the long-term bonds to a fixed rate.

Terms and fair value. The terms and fair value of the outstanding swaps as of June 30, 2009 were as follows (dollars in thousands).

Series	Counterparty	Counterparty Credit Rating Moody's/S&P	Notional Amount	Date of Swap	Maturity Date of Swap	Fixed Rate	Fair Values
15	UBS AG	Aa2/A+	$16,780	5/8/2003	7/1/2032	3.51%	$ (1,069)
16	Bank of America, N.A.	Aa3/A+	17,125	9/16/2003	7/1/2032	3.81%	(1,620)
17	Bank of America, N.A.	Aa3/A+	20,000	12/11/2003	7/1/2032	3.73%	(2.087)
18	Goldman Sachs Mitsui Marine	Aa1/AAA	20,000	4/20/2004	1/1/2035	3.29%	(999)
			$73,905				$ (5,775)

Under all of the swaps, the Agency pays the counterparties a fixed rate and receives a variable payment computed as 63% of LIBOR plus 30 basis points. The bonds' variable-rate coupons are based on the variable SIFMA, which was 0.32% as of June 30, 2009.

Fair value. In total, the swaps have a fair value of negative $5.775 million as of June 30, 2009. Because the coupons on the Agency's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

Credit risk. As of June 30, 2009, the swaps did not expose the Agency to credit risk since the swaps had a negative fair value, in aggregate. However, should interest rates change and the aggregate fair value of the swaps become positive, the Agency would be exposed to credit risk in the amount of the derivatives' aggregate fair value. To mitigate the credit risk to each party to the swap agreement of a decline in credit quality of the other party, each swap agreement provides that collateral must be posted if either party's rating falls below A1 for Moody's and A+ for S&P. The collateral must be posted with a third-party in the form of cash or United States Government Securities. Additionally, each of the swap agreements has termination provisions if ratings fall below certain levels.

Basis risk and termination risk. The swaps expose the Agency to basis risk should the relationship between LIBOR and SIFMA converge, changing the synthetic rate on the bonds. For all swaps, collateral thresholds have been established if the counterparty's ratings reach A2 for Moody's or A for S&P. Series 16, 17 and 18 swaps may be terminated if the counterparty's or the Agency's rating falls below Baa2 as issued by Moody's or BBB as issued by S&P. Series 15 swap may be terminated if the counterparty's or the Agency's rating falls below Baa3 as issued by Moody's and BBB- as issued by S&P.

F. Swaptions

Objective. As a means of lowering its borrowing costs on the existing bonds in the table below and increasing its savings when compared to fixed rate refunding bonds, the State entered into basis swap and swaption contracts with three different financial institutions. Swaptions give the purchaser the right, but not the obligation, to enter into an interest rate swap on a specified future date. These swaptions and the related basis rate swap disclosed previously were entered into as an alternative to a synthetic fixed rate refunding. This swaption alternative provides an annuity to the State (69 basis points total – 28 for the swaptions). The swaptions give each counterparty the option to require the State to enter into pay-fixed, receive-variable interest rate swaps at the various call dates. If the swaptions are exercised, the State would then expect to issue variable-rate refunding bonds sufficient to retire the related issue.

	Principal or Notional Amount (dollars in thousands)				
Bond Series	Counterparty1	Counterparty 2	Counterparty 3	Series Total	Call Date / Swaption Exercise Date
Public Improvement Bonds, Series 2003A	$ 85,500	$ 51,300	$ 34,200	$ 171,000	3/1/2013
Public Improvement Bonds, Series 2003B	84,977	50,987	33,991	169,955	4/1/2013
Public Improvement Bonds, Series 2004A	167,500	100,500	67,000	335,000	3/1/2014
Total	$ 337,977	$ 202,787	$ 135,191	$ 675,955	

Terms. The swaption agreements were entered into on March 9, 2005 and mature March 1, 2026. The swaption annuity was based on the total notional amount of $675.955 million and is tied to the respective bond issues noted above. The counterparties have the right to exercise the swaption agreements 90 days prior to the call date for each series. If exercised, the State will pay the counterparties a fixed rate, and the counterparties will pay the State a variable rate (SIFMA) based on a declining notional amount that matches the amortization of the associated bonds by series. If the swaptions are exercised, the State intends to issue variable rate bonds in a principal amount to retire the associated bond series. The terms of the swaptions are listed below, which include counterparty credit ratings as of June 30, 2009.

	Based on Respective Notional Amounts			
Counterparty	Swaption Annuity Payment Received	Fixed Rate Paid by the State	Variable Rate Received by the State	Counterparty Credit Rating Moody's/S&P
Counterparty 1	28 Basis Points	4.8%	SIFMA	Aa2/AA
Counterparty 2	28 Basis Points	4.8%	SIFMA	A2/A
Counterparty 3	28 Basis Points	4.8%	SIFMA	Aa1/AA-

Fair value. As of June 30, 2009, the swaptions had fair values of negative $24.6 million (Counterparty 1), negative $13.9 million (Counterparty 2) and negative $9.2 million (Counterparty 3), which were estimated using the mark to market method. This method of valuation was established by market quotations from the counterparties representing estimates of the amounts that would be paid for replacement transactions. These values reflect a decline in interest rates from the prior fiscal year, however, only the State has the option to terminate the swaptions. A replacement transaction would generate net present value savings equal to these fair value amounts.

Market-access risk. A small risk exists that the State, for some unforeseen reason, may be unable to issue the variable rate bonds. If the swaptions are exercised and refunding bonds are not issued, the series 2003 A and B and 2004A bonds would not be refunded, the basis rate swaps would continue, and the State would have to pay a termination payment on the swaptions to the counterparties. Termination values will be based on the net present value difference between SIFMA and 4.8% fixed rate.

G. Debt Service Requirements

The following schedules show the debt service requirements for the primary government (governmental activities) and component units (University of North Carolina System, North Carolina Housing Finance Agency, and the State Education Assistance Authority). The debt service requirements of variable rate debt and net swap payments are based on rates as of June 30, 2009 and assume that current interest rates remain the same for their term. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Annual debt service requirements to maturity for general obligation bonds, special indebtedness, GARVEE bonds, revenue bonds, and notes payable are as follows (dollars in thousands).

Primary Government

	Governmental Activities						
	General Obligation Bonds			Certificates of Participation		Lease-Purchase Revenue Bonds	
Fiscal Year Ending June 30	Principal	Interest	Interest Rate Swaps, Net	Principal	Interest	Principal	Interest
2010	$ 364,385	$ 209,925	$ 14,901	$ 46,985	$ 44,556	$ 10,000	$ 10,615
2011	364,550	191,917	14,901	47,740	42,393	10,000	10,154
2012	365,575	173,578	14,901	48,550	40,092	10,000	9,687
2013	367,510	156,274	14,248	49,395	37,889	10,000	9,220
2014	367,685	141,711	12,669	50,290	35,515	10,000	8,749
2015-2019	1,836,500	494,684	38,208	266,835	139,411	50,000	36,339
2020-2024	1,257,515	205,326	—	284,370	70,832	122,225	15,609
2025-2029	245,545	17,890	—	125,420	12,268	2,820	65
Total	$ 5,169,265	$ 1,591,305	$ 109,828	$ 919,585	$ 422,956	$ 225,045	$ 100,438

	Governmental Activities					
	Limited Obligation Bonds		GARVEE Bonds		Notes Payable	
Fiscal Year Ending June 30	Principal	Interest	Principal	Interest	Principal	Interest
2010	$ 19,295	$ 27,634	$ 38,670	$ 11,465	$ 4,658	$ 858
2011	19,960	26,967	36,245	9,658	3,708	700
2012	20,710	26,219	24,470	7,939	2,318	589
2013	21,565	25,425	25,660	6,753	2,369	508
2014	22,440	24,552	27,025	5,548	2,530	421
2015-2019	128,190	106,705	89,750	13,061	12,080	1,094
2020-2024	161,805	73,726	—	—	—	—
2025-2029	206,035	30,594	—	—	—	—
Total	$ 600,000	$ 341,822	$ 241,820	$ 54,424	$ 27,663	$ 4,170

The general obligation bonds include $355 million of variable rate debt without interest rate swaps. For this debt, the variable interest rates change on a weekly basis and are based on the rate paid by each bank. The banks base their rate on what they perceive to be the market (seven-day) for debt of this type given the credit standing of the unit of government. The general obligation bonds also include $499.87 million of variable rate debt with interest rate swaps (see Note 7E).

Component Units

Fiscal Year Ending June 30	University of North Carolina System: Revenue Bonds Principal	Revenue Bonds Interest	Revenue Bonds Interest Rate Swaps, Net	Certificates of Participation Principal	Certificates of Participation Interest	Notes Payable Principal	Notes Payable Interest
2010	$ 82,205	$ 90,596	$ 7,402	$ 2,075	$ 1,350	$ 24,969	$ 1,131
2011	83,355	87,686	7,294	2,150	1,270	9,047	506
2012	87,715	84,426	7,190	2,230	1,192	13,354	777
2013	88,585	81,200	7,053	2,335	1,086	895	173
2014	90,145	78,208	6,913	2,420	999	752	143
2015-2019	438,369	343,355	30,394	3,175	4,270	3,253	356
2020-2024	426,005	271,910	18,958	3,910	3,533	—	—
2025-2029	396,330	201,102	4,214	4,870	2,572	—	—
2030-2034	457,320	126,616	—	6,145	1,297	—	—
2035-2039	245,120	15,193	—	1,815	101	—	—
Total	$ 2,395,149	$ 1,380,292	$ 89,418	$ 31,125	$ 17,670	$ 52,270	$ 3,086

Fiscal Year Ending June 30	Revenue Bonds: North Carolina Housing Finance Agency Principal	North Carolina Housing Finance Agency Interest	North Carolina Housing Finance Agency Interest Rate Swaps, Net	State Education Assistance Authority Principal	State Education Assistance Authority Interest
2010	$ 36,880	$ 73,154	$ 2,277	$ —	$ 79,545
2011	39,395	71,590	2,228	—	79,545
2012	41,260	69,890	2,181	—	79,545
2013	44,410	68,048	2,137	—	79,545
2014	45,835	66,015	2,094	—	79,545
2015-2019	230,140	296,943	9,826	35,712	396,566
2020-2024	207,890	243,996	8,405	300,000	386,682
2025-2029	316,280	183,253	6,130	30,000	384,254
2030-2034	346,115	98,179	2,394	1,975,000	300,646
2035-2039	207,790	27,977	75	1,653,750	15,487
2040-2044	1,790	47	—	—	—
Total	$ 1,517,785	$ 1,199,092	$ 37,747	$ 3,994,462	$ 1,881,360

For revenue bonds of the University of North Carolina System and the State Education Assistance Authority, the fiscal year 2010 principal requirements exclude demand bonds classified as current liabilities (see Note 7D). For revenue bonds of the North Carolina Housing Finance Agency, the fiscal year 2010 principal requirements exclude a bond call on July 1, 2009.

H. Bond Defeasances

The State and its component units have defeased certain bonds through current and/or advance refundings. New debt proceeds from current refundings may be used to repay the old debt immediately while new debt proceeds from advance refundings are placed into an irrevocable trust with an escrow agent to provide for all future debt service payments on the defeased bonds. Since these bonds are considered to be defeased, the liabilities for these bonds have been removed from the government-wide statement of net assets.

Component Units

University of North Carolina System

North Carolina State University
On July 10, 2008, North Carolina State University issued $26.96 million in General Revenue Bonds, Series 2008B with an average interest rate of 3.59%. The refunding component of this bond issue was used for 1) a current refunding of $5.52 million of outstanding University of North Carolina System Pool Revenue Bonds, Series 1998B with an average interest rate of 5% and 2) an advance refunding of $3.16 million of outstanding University of North Carolina System Pool Revenue Bonds, Series 2000 with an average interest rate of 5.35%. Both the current refunding and this advance refunding were undertaken to reduce total debt service payments by $152 thousand over the next 12 years and resulted in an economic gain of $128 thousand. At June 30, 2009, the outstanding balance was $3.16 million for the defeased University of North Carolina System Pool Revenue Bonds.

University of North Carolina Hospitals at Chapel Hill
On February 12, 2009, UNC Hospitals issued $44.29 million in University of North Carolina Hospitals at Chapel Hill Revenue Refunding Bonds Series 2009A with an average interest rate of 3.61%. The bonds were issued to advance refund $43.31 million of outstanding University of North Carolina Hospitals at Chapel Hill Revenue Bonds Series 1999 with an average interest rate of 5.25%. This advance refunding was undertaken to reduce total debt service payments by $4.27 million over the next 15 years and resulted in an economic gain of $3.16 million. At June 30, 2009, the outstanding balance was $43.51 million associated with this advanced refunding for the defeased University of North Carolina Hospitals at Chapel Hill Revenue Bonds, Series 1999 bonds.

State Education Assistance Authority

During the year ended June 30, 2009, the Authority issued $309.86 million in 2008-2 Series Tax-Exempt Guaranteed Student Loan Revenue and Refunding Bonds with an initial interest rate of 1.85%, $105.95 million in 2008-3 Series Tax-Exempt Guaranteed Student Loan Revenue and Refunding Bonds with an initial interest rate of 1.35%, and $159.86 million in 2008-5 Series Tax-Exempt Guaranteed Student Loan Revenue and Refunding Bonds with an initial interest rate of 0.95%. The refunding component of these bond issues was used for a current refunding of $551.86 million of outstanding Tax-Exempt Student Loan Revenue Bonds with an average interest rate of 4.26%. The refunding was undertaken to reduce total debt service payments by $403.72 million over the next 28 years and resulted in an economic gain of $330.93 million.

Prior Year Defeasances

During prior years, the State and certain component units defeased certain general obligation and other bonds. For those defeasances involving advance refundings, the proceeds and any securities purchased with the proceeds were placed in an irrevocable trust with an escrow agent in an amount sufficient to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the government-wide statement of net assets. At June 30, 2009, the outstanding balance of prior year defeased bonds was $372 million for the primary government and $149.07 million for the University of North Carolina System (component unit).

I. Bond Redemptions

The bond series resolutions for the North Carolina Housing Finance Agency provide for various methods of redemption. Bonds are redeemed at par from prepayments of mortgage loans securing the issues, from unexpended bond proceeds of the issues, or from funds released via the related decreases in the respective debt service reserve requirements. Various bond issues are redeemable at the option of the Agency with premiums ranging up to 0.5% for up to 12 years after the date of issue.

J. Pollution Remediation Payable

Primary Government

Governmental Activities

The N.C. Department of Transportation (DOT) has several equipment yards across the state with old underground fuel storage tanks. State law requires leaks from tanks to be assessed for remediation. The Department of Environment and Natural Resources assigns a health risk based score to each incident. Incidents with a site score over a set criteria are identified as high priority sites and are required to be remediated. At year-end, DOT had 36 high priority sites. For sites under the set criteria, cleanup is optional. Currently, DOT is not working on low priority sites.

The N.C. Department of Cultural Resources is responsible for cleaning up hazardous substances at the following two properties, the North Carolina Maritime Museum Harborside Property (Harborside Property) and the Tryon Palace Boatworks Site (Boatworks Site). As a result of a U.S. Environmental Protection Agency Superfund assessment, the Harborside Property has been placed under the jurisdiction of the Inactive Hazardous Sites Branch of the N.C. Department of Environment and Natural Resources (DENR). The N.C.

Department of Cultural Resources has agreed upon a remedial action plan with the Hazardous Sites Branch of DENR to voluntarily clean up the Boatworks Site.

At year-end, the State recognized a pollution remediation liability of $6.688 million, of which $5.71 million was for leaking underground fuel tanks at DOT and $978 thousand was for the two polluted sites at the N.C. Department of Cultural Resources. The liability was measured using the expected cash flow technique. The liability could change over time due to changes in cost of goods and services, changes in remediation technology, or changes in laws and regulations governing the remediation effort.

Business-type Activities

The Department of Agriculture and Consumer Services had electrical transformers reconditioned or repaired at the former Ward Transformers industrial site in Wake County, a Superfund site, and was named by the U.S. Environmental Protection Agency as a responsible party for remediation expenses. The electrical transformers had been used by the N.C. State Fair. Based on an approved settlement, the State recognized a pollution remediation liability of $250 thousand.

Component Units

University of North Carolina System

Fayetteville State University recognized a pollution remediation liability of $83 thousand for the voluntary commencement of asbestos removal at various administrative and academic buildings and underground tank removals at the Facilities Maintenance building. These projects are expected to be completed in fiscal year 2010. The amount of the liability was derived from the estimated costs of the abatements and removals.

NOTE 8: LEASE OBLIGATIONS—OPERATING AND CAPITAL

The State and its component units have entered into various operating and capital leases for office space and for communications, computer, and other equipment. Any operating leases with scheduled rent increases are considered immaterial to the future minimum lease payments and current rental expenditures. Operating lease payments are recorded as expenditures or expenses of the related funds when incurred. For the year ended June 30, 2009, total operating lease expenditures were $86.36 million for Primary Government, $49.21 million for the University of North Carolina System, and $5.92 million for Community Colleges. Future minimum lease commitments for noncancelable operating leases and capital leases as of June 30, 2009 are as follows (dollars in thousands):

	Operating Leases			**Capital Leases**		
		Component Units			Component Units	
Fiscal Year	Primary Government	University of North Carolina System	Community Colleges	Governmental Activities	University of North Carolina System	Community Colleges
2010	$ 55,864	$ 32,738	$ 5,068	$ 2,096	$ 17,307	$ 659
2011	44,679	25,670	5,987	2,098	11,946	526
2012	31,900	17,181	5,129	1,944	11,465	380
2013	16,898	14,041	4,437	1,943	10,502	290
2014	11,541	9,957	3,598	1,952	9,128	—
2015 - 2019	24,185	24,793	14,563	9,820	43,659	—
2020 - 2024	12,212	18,818	13,111	9,736	51,994	—
2025 - 2029	8,710	11,168	13,111	1,940	55,560	—
2030 - 2034	8,082	78	2,127	—	56,810	—
2035 - 2039	8,082	87	—	—	46,014	—
2040 - 2044	8,082	24	—	—	—	—
2045 - 2049	8,082	24	—	—	—	—
2050 - 2054	4,849	24	—	—	—	—
2055 - 2059	—	24	—	—	—	—
Total Future Minimum Lease Payments.........	$ 243,166	$ 154,627	$ 67,131	31,529	314,385	1,855
Less: Amounts Representing Interest				(7,696)	(102,444)	(204)
Present Value of Future Minimum Lease Payments				$ 23,833	$ 211,941	$ 1,651

At June 30, 2009, capital assets acquired under capital leases are as follows (dollars in thousands):

	Primary Government	Component Units	
	Governmental Activities	University of North Carolina System	Community Colleges
Buildings..	$ 26,051	$ 201,196	$ 1,782
Machinery and Equipment......................	477	23,959	2,453
Other..	—	686	43
Less: Accumulated Depreciation..........	—	(24,522)	(1,476)
Total Capital Assets...............................	$ 26,528	$ 201,319	$ 2,802

NOTE 9: INTERFUND BALANCES AND TRANSFERS

A. Interfund Balances

Due To/From Fiduciary Funds

The General Fund balance of $62.323 million due to fiduciary funds is composed primarily of $15.818 million related to local sales taxes collected in the general fund and due to the agency fund, as well as $46.505 million related to retirement contributions payable to retirement systems at year end. The other balances due to fiduciary funds are related to balances held on behalf of patients at the State's mental health facilities.

The other balances due from fiduciary funds are primarily for services provided to pension and other employee benefit trust funds. Amounts payable to or receivable from fiduciary funds are considered interfund balances in the fund financial statements, but are not reported as internal balances in the government-wide statement of net assets.

Due To/From Other Funds

Balances due to/from other funds at June 30, 2009, consisted of the following (dollars in thousands):

	Due From Other Funds					
	General Fund	Highway Fund	Other Governmental Funds	Unemployment Compensation Fund	Internal Service Funds	Total
Due To Other Funds						
General Fund	$ —	$ —	$ 13,574	$ —	$ 20,868	$ 34,442
Highway Fund	—	—	2,949	—	4,452	7,401
Highway Trust Fund	—	152,107	—	—	—	152,107
Other Governmental Funds	59	—	8,119	3,000	1,407	12,585
Unemployment Compensation Fund	—	—	75	—	—	75
EPA Revolving Loan Fund	—	—	—	—	28	28
NC State Lottery Fund	—	—	6,554	—	71	6,625
Nonmajor Enterprise Funds	—	—	15	—	67	82
Internal Service Funds	8	—	1	—	1,547	1,556
Total	$ 67	$ 152,107	$ 31,287	$ 3,000	$ 28,440	$ 214,901

These balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. Amounts reported in the funds as interfund receivables and payables were eliminated in the governmental and business-type activities columns of the government-wide statement of net assets, except for the net residual amounts due between governmental and business-type activities, which were presented as internal balances.

B. Interfund Transfers

Transfers in/out of other funds for the fiscal year ended June 30, 2009 consisted of the following (dollars in thousands):

	Transfers In						
Transfers Out	General Fund	Highway Fund	Other Governmental Funds	EPA Revolving Loan Fund	Other Enterprise Funds	Internal Service Funds	Total
General Fund	$ —	$ 1,002	$ 514,094	$ 7,995	$ 3,116	$ 3,925	$ 530,132
Highway Fund	64,050	—	226,004	—	—	—	290,054
Highway Trust Fund	147,896	48,659	940	—	—	—	197,495
Other Governmental Funds	843,655	669	445,333	689	—	1,045	1,291,391
Unemployment Compensation Fund	—	—	16,753	—	—	—	16,753
EPA Revolving Loan Fund	304	—	—	—	—	—	304
NC State Lottery Fund	-	—	414,929	—	—	21	414,950
Other Enterprise Funds	698	—	2,703	—	—	—	3,401
Internal Service Funds	52	—	—	—	—	484	536
Total	$ 1,056,655	$ 50,330	$ 1,620,756	$ 8,684	$ 3,116	$ 5,475	$ 2,745,016

Transfers are primarily used to (1) transfer revenues and bond proceeds from the fund required by State statute or budget to collect the revenue to the fund required by State statute or budget to expend them, (2) provide unrestricted revenues collected in the general fund to finance operating and capital programs accounted for in other funds in accordance with budgetary authorizations, and (3) reflect reversions of State funds from other funds to the General Fund in accordance with Office of State Budget and Management requirements.

When the Highway Trust Fund was created in 1989, the revenue from the sales tax on motor vehicles was transferred from the General Fund to the Highway Trust Fund. To offset a portion of this revenue loss in the General Fund, the Highway Trust Fund is required to transfer funds to the General Fund each year. The total transfer for this fiscal year was $147.531 million.

In compliance with the North Carolina State Lottery Act, House Bill 1023 [Session Law 2005], all "Net Revenues" of the NC State Lottery Fund are required to be transferred to the Education Lottery Fund (other governmental funds) for educational purposes. The total transfer for this fiscal year was $413.929 million, as set forth in General Statute 18C-164.

In order to meet the constitutional requirement for a balanced budget in the General Fund, resources were transferred from various funds to the General Fund. Among the resources transferred, approximately $295.005 million was from other governmental funds.

NOTE 10: FUND BALANCE RESERVES

Reserved Fund Balance. The State's reserved fund balances represent those portions of the fund balances that are either (a) externally restricted for a specific use, (b) not available for appropriation or expenditure because the underlying asset is not an available financial resource for current appropriation or expenditure, or (c) for encumbrances, which represent commitments related to unperformed contracts for services and undelivered goods. The reserved fund balances at June 30, 2009, are (dollars in thousands):

	Governmental Funds				
	General Fund	*Highway Fund*	*Highway Trust Fund*	*Other Governmental Funds*	*Total Governmental Funds*
Specific encumbrances	$ 41,839	$ 7,267	$ —	$ —	$ 49,106
Inventories	69,596	81,631	—	41,356	192,583
Permanent investments	—	—	—	75,992	75,992
Notes receivable	22,828	1,030	88	311,220	335,166
Compensated absences charged to federal projects	—	55,097	—	—	55,097
Capital projects commitments	—	—	—	285,537	285,537
Transportation improvement projects	—	31,896	—	—	31,896
Advance to component unit	—	—	14,974	21,742	36,716
Loan and grant commitments	—	2,595	—	280,757	283,352
General government	11,835	—	—	—	11,835
Higher education	2,591	—	—	—	2,591
Health and human services	11,607	—	—	—	11,607
Economic development	14,057	—	—	—	14,057
Environment and natural resources	360	—	—	—	360
Public safety, corrections and regulation	14,575	—	—	—	14,575
Total reserved fund balance	$ 189,288	$ 179,516	$ 15,062	$ 1,016,604	$ 1,400,470

NOTE 11: RETIREMENT PLANS

The State reports ten retirement plans as pension trust funds. Section A of this note describes the seven defined benefit public employee retirement plans and one defined contribution plan administered by the State. The remaining plans, described in Note 12, are defined contribution plans administered by a third party under the auspices of the State. The State may or may not make supplementary contributions to these plans. Although the assets of the administered plans are commingled for investment purposes, each plan's assets may be used only for payment of benefits to the members of that plan and for administrative costs in accordance with the terms of the plan. The plans in this note do not issue separate financial statements, nor are they reported as part of other entities. The financial statements and other required disclosures are presented in Note 15 and in the *Required Supplementary Information* section of this *CAFR*. The State also provides an optional retirement plan for certain university employees and a special separation allowance for eligible sworn law enforcement officers.

A. Plan Descriptions and Contribution Information

1. *TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM*

This plan is a cost-sharing, multiple-employer, defined benefit plan established by the State of North Carolina to provide pension benefits for employees of the State, its component units, and Local Education Agencies (LEAs) not in the reporting entity. Membership is comprised of employees of the State (state agencies and institutions), universities, community colleges, and certain proprietary component units along with the LEAs. At June 30, 2009, the number of participating LEAs and component unit employers was 243 as shown below:

Local Education Agencies	163
Community colleges	58
University of North Carolina System	19
Proprietary component units	3

Benefits and administrative expenses are funded by member contributions of 6% of compensation, investment income, and by an actuarially based required employer contribution established by legislation. For the fiscal year ended June 30, 2009, the State made a statutory contribution of 3.36% of covered payroll. This also equaled the actuarially required contribution. Benefit and contribution provisions are established by General Statutes 135-5 and 135-8 and may be amended only by the North Carolina General Assembly.

Because of a budget shortfall during this fiscal year, Executive Order No. 11 reduced member salaries by 0.5 % in order to balance the State's budget. As a result, covered payroll was defined, for contribution purposes, as salary that would have been paid if there was no budget shortfall. Members contributed 6% of their actual reduced salary and employers contributed an additional .03% of their covered payroll to make up the difference between the members' actual contribution and the statutorily required 6% of covered payroll.

Actual payments made in relation to the required contributions for the State are shown in *Section D* of this note and in the *Required Supplementary Information* section of this report.

The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

2. *CONSOLIDATED JUDICIAL RETIREMENT SYSTEM*

This plan is a single-employer, defined benefit plan established by the State of North Carolina to provide pension benefits for employees of the State Judicial System. Membership is comprised of judges, district attorneys and clerks of court. The plan provides retirement, disability and death benefits. Benefits and administrative expenses are funded by member contributions of 6% of compensation, investment income, and by employer contributions. For the fiscal year ended June 30, 2009, the State made a statutory contribution of 13.21% of covered payroll. This was greater than the actuarially required contribution of 12.48%. Benefit and contribution provisions are established by General Statutes 135-57, 135-58, 135-68 and 135-69 and may be amended only by the North Carolina General Assembly.

Because of a budget shortfall during this fiscal year, Executive Order No. 11 reduced member salaries by 0.5 % in order to balance the State's budget. As a result, covered payroll was defined, for contribution purposes, as salary that would have been paid if there was no budget shortfall. Members contributed 6% of their actual reduced salary and employers contributed an additional .03% of their covered payroll to make up the difference between the members' actual contribution and the statutorily required 6% of covered payroll.

Actual payments made in relation to the required contributions for the State are shown in *Section D* of this note and in the *Required Supplementary Information* section of this report.

The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

3. *LEGISLATIVE RETIREMENT SYSTEM*

This plan is a single-employer, defined benefit plan established by the State of North Carolina to provide retirement and disability benefits for members of the General Assembly.

The benefit will not be payable while the member is employed in a position making him eligible to participate in either the Teachers' and State Employees' Retirement System, Consolidated Judicial Retirement System or the Local Governmental Employees' Retirement System.

Benefits and administrative expenses are funded by member contributions of 7% of compensation, investment income, and by actuarially based employer contributions. For the fiscal year ended June 30, 2009, there was no actuarially based required contribution.

Benefit and actuarially based contribution provisions are established by General Statutes 120-4.21, 120-4.19 and 120-4.20 and may be amended only by the North Carolina General Assembly. Actual payments made in relation to the required contributions for the State are shown in *Section D* of this note and in the *Required Supplementary Information* section of this report.

Because of a budget shortfall during this fiscal year, Executive Order No. 11 reduced member compensation by 0.5 % in order to balance the State's budget. As a result, covered payroll was defined, for contribution purposes, as compensation that would have been paid if there was no budget shortfall. Members contributed 7% of their actual reduced compensation and employers contributed an additional .04% of their covered payroll to make up the difference between the members' actual contribution and the statutorily required 7% of covered payroll.

The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

OTHER STATE ADMINISTERED SYSTEMS

The State also administers the following pension and retirement plans for persons who are not considered employees of the State or its component units.

4. *FIREMEN'S AND RESCUE SQUAD WORKERS' PENSION FUND*

This plan is a defined benefit pension plan established by the State of North Carolina to provide pension benefits for all eligible firemen and rescue squad workers. Membership is composed of both volunteer and locally employed firemen and emergency medical personnel who elect membership. At June 30, 2009, there were 1,999 participating fire and rescue units. This is a special funding situation in that the State is not the employer but is legally obligated to contribute to the plan.

Benefits and administrative expenses are funded by a ten dollar monthly contribution by the member, investment income and an actuarially based state appropriation (see section D for the amount). Benefit and contribution provisions are established by General Statute 58-86 and may be amended only by the North Carolina General Assembly.

5. *NORTH CAROLINA NATIONAL GUARD PENSION FUND*

This plan is a defined benefit plan established by the State of North Carolina to provide pension benefits for members of the North Carolina national guard. This also is a special funding situation because the State is not the employer, but is legally obligated to contribute to the plan.

Benefits and administrative expenses are funded by an actuarially based state appropriation (see section D) and investment income. Benefit and contribution provisions are established by General Statute 127A-40 and may be amended only by the North Carolina General Assembly.

6. *REGISTERS OF DEEDS' SUPPLEMENTAL PENSION FUND*

This plan is a cost-sharing, multiple-employer, defined benefit plan established by the State of North Carolina to provide supplemental pension benefits for all eligible, retired county registers of deeds. Membership is composed of registers who are retired from the Local Governmental Employees' Retirement System or an equivalent local plan and have met the statutory eligibility requirements. At June 30, 2009, there were 88 individuals receiving benefits in the plan with all 100 counties participating. An individual's benefits for the year are calculated as a share of accumulated contributions available for benefits for that year, subject to certain statutory limits. An individual's eligibility is based on minimum years of service as a register with the individual's share increasing with years of service. Because of the statutory limits noted above, not all contributions available for benefits are distributed. The State Treasurer administers the plan and *Section B* of this note describes the accounting and investing for the plan. The State's only cost in the plan is administration.

Benefits and administrative expenses are funded by investment income and 1.5% of the receipts collected by each County Commission under Article 1 of Chapter 161 of the North Carolina General Statutes. The statutory contribution currently has no relationship to the actuary's required contribution. The actuarially required contribution this year and in the foreseeable future is zero. Registers do not contribute. The actuarially required contribution and percentage of that contribution actually made is in the *Required Supplementary Information* section of this report. All benefit and contribution provisions are established by General Statute 161-50 and may be amended only by the North Carolina General Assembly.

NOTES TO THE FINANCIAL STATEMENTS

7. *SHERIFFS' SUPPLEMENTAL PENSION FUND*

This plan is a defined contribution plan established by the State of North Carolina to provide supplemental pension benefits for all eligible, retired county sheriffs. Membership is comprised of sheriffs who are retired from the Local Governmental Employees' Retirement System and beneficiaries that meet the statutory eligibility requirements. At June 30, 2009, there were 84 sheriffs and one beneficiary enrolled in the plan with all 100 of the State's counties eligible to participate.

An individual's benefits for the year are calculated as a share of accumulated contributions available for benefits for that year, subject to certain statutory limits. An individual's eligibility is based on minimum years of service as a sheriff with the individual's share increasing with years of service. Because of the statutory limits noted above, not all contributions available for benefits are distributed. The North Carolina Department of Justice administers the plan. If the plan purchases any investments, they are held as part of the State Treasurer's Investment Pool. *Section B* of this note describes the accounting and investing for the plan. The State's only cost in the plan is administration.

Receipts collected by each county's Clerk of Superior Court under General Statutes 7A-304(a)(3a), along with investment income, support the plan's benefits and administrative expenses. Sheriffs do not contribute to the plan. For the fiscal year ended June 30, 2009, the Clerks remitted $1.329 million. All benefit and contribution provisions are established by Chapter 143, Article 12H of the General Statutes and may be amended only by the North Carolina General Assembly.

8. *LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM*

This plan is a cost-sharing, multiple-employer, defined benefit plan established by the State of North Carolina for employees of local governments. Membership is comprised of general employees and local law enforcement officers of participating local governmental entities.

At June 30, 2009, the number of participating local governments was 885, as shown below:

Cities	417
Counties	100
Special districts	368

The plan provides retirement benefits nearly identical to the benefits that accrue to members of the Teachers' and State Employees' Retirement System. This plan also provides disability benefits for members who become totally and permanently disabled from performing their usual job. Benefits and administrative expenses are funded by employee contributions of 6% and actuarially based employer contributions. The annual required contribution (ARC) and actual contribution for all employers was 5.27% of covered payroll for law enforcement officers and 4.80% for general employees and firemen. In addition, employers with an unfunded liability, established when the government initially enters the system, must make additional contributions towards that liability. The State's responsibility is administrative only. Benefit and contribution provisions are established by General Statutes 128-27 and 128-30 and may be amended only by the North Carolina General Assembly.

The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains.

The following table summarizes membership information by plan at the actuarial valuation date:

Employee Groups	*Teachers' and State Employees'*	*Judicial*	*Legislative*	*Firemen's and Rescue Squad*	*North Carolina National Guard*	*Registers of Deeds'*	*Local Governmental*
Retirees and beneficiaries currently receiving benefits	151,353	488	261	10,509	3,415	86	44,311
Terminated employees entitled to benefits but not yet receiving them	95,175	51	76	148	4,513	-	35,276
Active plan members	325,618	551	169	36,160	5,586	100	123,524
Total	572,146	1,090	506	46,817	13,514	186	203,111
Date of valuation	*12-31-08*	*12-31-08*	*12-31-08*	*6-30-08*	*12-31-08*	*12-31-08*	*12-31-08*

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PLAN ASSET MATTERS

BASIS OF ACCOUNTING

The financial statements of these plans are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

INVESTMENTS /SECURITIES LENDING

Pursuant to North Carolina General Statutes, the State Treasurer is the custodian and administrator of the retirement systems. The State Treasurer maintains various investment portfolios in its Investment Pool. The pension trust funds are the primary participants in the Long-term Investment portfolio and the sole participants in the Equity Investment, Real Estate Investment and Alternative Investment portfolios.

The investment balance of each pension trust fund represents its share of the fair value of the net assets of the various portfolios within the pool. Detailed descriptions of how the fair value is determined in the various portfolios are presented in Note 3. Additionally, the securities lending balance represents assets occurring from securities lending transactions that result from the systems' participation in the pool. The investments of the State Treasurer and securities lending are fully discussed in Note 3.

C. Actuarial Methods and Assumptions

The latest actuarial valuations are dated December 31, 2008 (June 30, 2008, for the Firemen's and Rescue Squad Workers' Fund). The actuarial accrued liability and the schedule of funding progress for the past six years are presented by system in the *Required Supplementary Information* section of this report. Actuarial valuations involve estimates of reported amounts and assumptions about the probability of the occurrence of events. The actuarial value of assets for all systems is based on a five-year smoothed market value. Under this method, realized and unrealized gains and losses on investments are smoothed over five years. Below are listed the various actuarial methods and significant assumptions for these valuations that will be used to determine future annual required contributions.

							Actuarial Assumptions	
Retirement System	Valuation Date	Actuarial Cost Method	Amortization Method	Remaining Amortization Period	Period Open/Closed	Asset Valuation Method	Investment Rate of Return	Projected Salary Increase
Teachers' and State Employees'	12/31/08	Entry age	Level dollar	9 years	Open	5 year smoothed	7.25%	4.50-16.10%
Consolidated Judicial	12/31/08	Projected unit credit	Level percentage	9 years	Open	5 year smoothed	7.25%	5.75-11.75%
Legislative	12/31/08	Projected unit credit	Level dollar	8 years	Open	5 year smoothed	7.25%	7.50%
Firemen's and Rescue Squad	6/30/08	Entry age	Level dollar	9 years	Open	5 year smoothed	7.25%	N/A
North Carolina National Guard	12/31/08	Entry age	Level dollar	9 years	Open	5 year smoothed	7.25%	N/A
Registers of Deeds'	12/31/08	Entry age	Level dollar	N/A	Open	5 year smoothed	7.25%	4.50-14.65%
Local Governmental Employees'	12/31/08	Frozen entry age	Level percentage	Various	Closed	5 year smoothed	7.25%	4.50-14.73%

N/A-Not applicable

Except for the Local Governmental Employees' system, only minor technical adjustments were adopted by legislation and reflected in these valuations. For the Local Governmental Employees' system, the Board of Trustees approved a 0.1% cost of living increase beginning on July 1, 2009. The minor adjustments to the respective systems were enacted by the North Carolina General Assembly effective July 1, 2009.

As of this valuation, the unfunded actuarial accrued liability for the Registers of Deeds' system, when amortized over 30 years is less than zero. This situation, which is not allowable under generally accepted accounting principles, is redefined by the actuary to effectively mean there is no liability to be amortized.

The projected investment returns and projected salaries for all systems, except the Legislative, include a 3.75% inflationary factor within the actuarial assumption. The assumption for the Legislative system does not identify an inflationary factor. The funding status of each of the State's various plans on the date of the most recent actuarial valuation is presented in section E of this note.

CURRENT FISCAL YEAR ASSUMPTIONS

Unless otherwise noted in this footnote or in the required supplementary schedules, the actuarial values, methods and significant assumptions for the current year's required contributions are the same as those presented in the table shown on the prior page. The annual required contributions (ARC) for the fiscal year ended June 30, 2009, were developed from various prior year valuations. The Teachers' and State Employees', Local Governmental Employees', Consolidated Judicial, and National Guard systems' valuations were as of December 31, 2006, the Legislative system was valued at December 31, 2007, and the Firemen's and Rescue Squad Worker's Fund was valued at June 30, 2007. These valuations used amortization periods of eight years for Legislative and nine years for all the other systems. Registers of Deeds' was valued at December 31, 2006, but effectively had no liability to be amortized. The Local Governmental Employees' system is an aggregate of numerous employers, and consequently, has various amortization periods. The rate of investment return and projected salary increases used in these valuations assumed essentially the same increases as in the most current valuations reported on the prior page.

For the fiscal year ended June 30, 2009, retirees in the Local Governmental Employees' system received a 2.15% cost of living adjustment. The Teachers' and State Employees' system, Legislative Retirement system and the Consolidated Judicial system provided a 2.2% cost of living increase for retirees. The Firemen's and Rescue Squad Workers' Fund increased retirement benefits from $167 to $170. All of these benefit enhancements reflect legislation enacted by the North Carolina General Assembly effective July 1, 2008. These enhancements were either reflected as liabilities in the valuations described above, or paid for with the systems' actuarial gains.

D. Annual Pension Cost and Net Pension Obligation

The annual pension costs and net pension obligations for the State's single-employer and special funding defined benefit plans for the current fiscal year are as follows (dollars in thousands):

	Consolidated Judicial Retirement System	Legislative Retirement System	Firemen's and Rescue Squad Workers' Pension Fund	North Carolina National Guard Pension Fund
Annual required contribution	$ 8,373	$ —	$ 9,757	$ 6,248
Interest on net pension obligation	(177)	(16)	38	(63)
Adjustment to annual required contribution	314	54	(81)	131
Annual pension cost	8,510	38	9,714	6,316
Less: Contributions made	8,863	—	9,762	5,892
Increase (decrease) in net pension obligation	(353)	38	(48)	424
Net pension (asset) obligation beginning of year	(2,438)	(221)	522	(868)
Net pension (asset) obligation end of year	$ (2,791)	$ (183)	$ 474	$ (444)

NOTES TO THE FINANCIAL STATEMENTS

The following table presents the required three year trend of pension costs for the State's single-employer and special funding defined benefit plans and the annual required contributions (ARC) the State made to the Teachers' and State Employees' Retirement System (the System), a cost-sharing, multiple-employer plan. Except for (A) below, the State's statutory annual contribution to the System equals its total annual payment to the System and equals the State's pension cost in these financial statements. The State does not make any contributions to the Local Governmental Employees' System; therefore, it has no related pension cost.

State of North Carolina's Annual Pension Cost (APC) and Annual Required Contributions (ARC) as an Employer

For the Years Ended June 30, 2007 through June 30, 2009(dollars in thousands)

	Teachers' and State Employees'	Judicial	Legislative	Firemen's and Rescue Squad	North Carolina National Guard
Primary Government:					
2009	$ 127,152	$ 8,510	$ 38	$ 9,714	$ 6,316
2008 **(A)**	143,500	8,145	2	8,687	6,239
2007	112,551	6,464	3	8,389	7,361
Component units:					
Universities:					
2009	$ 54,869				
2008	54,765				
2007	44,089				
Community Colleges:					
2009	$ 26,092				
2008	22,474				
2007	18,649				
Proprietary Funds:					
2009	$ 715				
2008	651				
2007	570				
Total Primary Government and Component Units:					
2009	$ 208,828	$ 8,510	$ 38	$ 9,714	$ 6,316
2008	221,390	8,145	2	8,687	6,239
2007	175,859	6,464	3	8,389	7,361
Percentage of APC Contributed:					
2009		104%	0%	100%	93%
2008		133%	10,450%	100%	112%
2007		112%	0%	101%	95%
Percentage of ARC Contributed:					
2009	100%				
2008	100%				
2007	100%				
Net Pension (Asset) Obligation:					
2009		$ (2,791)	$ (183)	$ 474	$ (444)
2008		(2,438)	(221)	522	(868)
2007		245	(14)	569	(100)

(A) - The State's contributions/pension cost for the Teachers' and State Employees' equals the statutorily required contribution plus $42 million for prior year actuarial deficits.

An additional contribution of $30 million was also made in 2007.

E. Funding Status and Funding Progress

The funding status of each of the State's various plans at the most recent actuarial valuation is presented below. These schedules were developed from actuarial methods and assumptions identified in *Section C* of this note. Multiyear trend information on funding progress is presented in the *Required Supplementary Information* (RSI) section of this CAFR. These schedules indicate whether the actuarial values of plan assets are increasing or decreasing over time in relation to the actuarial accrued liabilities. (dollars in thousands)

Retirement System	Valuation Date		Actuarial Value of Assets (a)		Actuarial Accrued Liability (AAL) (b)		Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)		Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
Teachers' and State Employees'	12-31-08	$	55,127,658	$	55,518,745	$	391,087	99.3%	$	13,267,554	3.0%
Consolidated Judicial	12-31-08	$	433,553	$	441,933	$	8,380	98.1%	$	65,083	12.9%
Legislative	12-31-08	$	30,097	$	23,092	$	(7,005)	130.3%	$	3,670	(190.9)%
Firemen's and Rescue Squad Workers'	6-30-08	$	316,973	$	339,022	$	22,049	93.5%		N/A	N/A
North Carolina National Guard	12-31-08	$	78,067	$	112,747	$	34,680	69.2%		N/A	N/A
Registers of Deeds'	12-31-08	$	37,212	$	18,365	$	(18,847)	202.6%	$	6,024	(312.9)%
Local Governmental Employees'	12-31-08	$	17,100,739	$	17,173,975	$	73,236	99.6%	$	4,974,742	1.5%

F. Optional Retirement Plan

The Optional Retirement Program (Program) is a defined contribution retirement plan that provides retirement benefits with options for payments to beneficiaries in the event of the participant's death. Faculty and administrators with faculty rank in institutions of the UNC System may join the Program instead of the Teachers' and State Employees' Retirement System. At June 30, 2009, the Plan had 13,200 participants.

Benefits are provided by means of contracts issued and administered by the privately-operated Teachers' Insurance and Annuity Association and the College Retirement Equities Fund (TIAA/CREF), Valid, Fidelity Investments and Lincoln National Life Insurance Company. Participants' eligibility and contributory requirements are established in General Statutes 135-5.1.

Because of a budget shortfall during this fiscal year, Executive Order No. 11 reduced member salaries by 0.5 % in order to balance the State's budget. As a result, covered payroll was defined, for contribution purposes, as salary that would have been paid if there was no budget shortfall. Participants contributed 6% of their actual salaries while the institutions contributed an additional .03% of their covered payroll to make up the difference between the employee's actual contribution and the statutorily required 6% of covered payroll. In addition, the institutions contributed their full share of the statutorily required 6.84% of covered payroll. The institutions contributed $89 million for the fiscal year ended June 30, 2009. Annual covered payroll (as defined earlier) was $1.3 billion. Employee contributions, along with the additional employer contributions to cover statutory requirements were $78 million for the fiscal year ended June 30, 2009. There is no liability other than the institutions' required contributions.

Participants are vested after five years of service, but the company must return the value of the institutions' contributions to the State if termination occurs prior to five years of service. The participant chooses his/her own investment products with the company of choice.

G. Special Separation Allowance

The State provides a special separation allowance (SSA), an agent multiple-employer, defined benefit pension plan, for sworn law enforcement officers as defined by General Statutes 135-1(11b) or General Statutes 143-166.30(a)(4) that were employed by State agencies and component units and retired on a basic service retirement under the provisions of General Statutes 135-5(a). To qualify for the allowance, each retired officer must: (1) have completed 30 or more years of creditable service or have attained 55 years of age and completed five or more years of creditable service; and (2) not have attained 62 years of age; and (3) have completed at least five years of continuous service as a law enforcement officer immediately preceding a service retirement. Each eligible officer is paid an annual separation allowance equal to .85% of the officer's most recent base rate of compensation for each year of creditable service. For the fiscal year ended June 30, 2009, the State and its component units paid $12.9 million for 885 retired law enforcement officers. These benefits are funded on a pay-as-you-go basis with each employer (the State or component unit) responsible for the benefits to their former employees. There is no statewide administration of the SSA and there is no actuarial valuation performed. Funds for this allowance are appropriated annually in the budget of each affected state agency or paid from the component unit's operations. These benefits are established in General Statute 143-166.41 and may be amended only by the General Assembly.

NOTE 12: DEFERRED COMPENSATION PLANS

IRC Section 457 Plan – General Statute 143B-426.24 authorized the creation of the Board of Trustees of the North Carolina Public Employee Deferred Compensation Plan (the Board). The Board was established as an agency of the State to offer the State's permanent employees, university employees, and the employees of certain other component units, a uniform Deferred Compensation Plan (the Plan) in accordance with Internal Revenue Code (IRC) Section 457. Effective July 1, 2008, the Board of Trustees of the North Carolina Public Employee Deferred Compensation Plan was consolidated with the Supplemental Retirement Income Plan's Board to form the North Carolina Supplemental Retirement Board of Trustees (the Board). At that time, the Board began administering these independent plans. The Plan permits each participating employee to defer a portion of his or her salary until future years by having the funds invested in various instruments that make up the North Carolina Public Employee Deferred Compensation Trust Fund. This fund is held in trust by the Plan for the exclusive benefit of participating employees and their beneficiaries. The deferred compensation is available to employees upon separation from service, death, disability, retirement or financial hardships if approved by the Board. The Board has delegated the general administration of the Plan to a third party but has retained all statutory authority and fiduciary responsibility for major decisions of the Plan. The Plan is reported as a pension and other employee benefit trust fund and also discloses a related party transaction in Note 20 of this CAFR. All costs of administering and funding the Plan are the responsibility of the plan participants. The Plan's financial statements are available by contacting the N.C. Department of State Treasurer at 325 North Salisbury Street, Raleigh, NC 27603-1385.

IRC Section 401(k) Plan - Effective January 1, 1985, Chapter 135, Article 5 of the General Statutes authorized the creation of the Supplemental Retirement Income Plan of North Carolina (the Plan) in accordance with Internal Revenue Code (IRC) Section 401(k). Effective July 1, 2008, the Board of Trustees of the North Carolina Public Employee Deferred Compensation Plan was consolidated with the Supplemental Retirement Income Plan's Board to form the North Carolina Supplemental Retirement Board of Trustees (the Board). At that time, the Board began administering these independent plans. All members of the Teachers' and State Employees' Retirement System, Consolidated Judicial Retirement System, Legislative Retirement System, Local Governmental Employees' Retirement System and University Optional Retirement Program and retirement and pension plans sponsored by political subdivisions of the State that qualify under Section 401(a) of the IRC are eligible to enroll in the Plan and may contribute up to 80% (limited to an Internal Revenue maximum dollar amount) of their compensation during the plan fiscal year. Members of the Plan may receive their benefits upon retirement, disability, termination, hardship, or death. All contributions and costs of administering the Plan are the responsibility of the participants.

The Plan is a defined contribution pension plan with direct administration delegated to a third party contractor. Financial statements are based on the Plan's fiscal year. The audited statements for the year ended December 31, 2008, are presented in this financial report as a pension and other employee benefit trust fund. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The Plan's financial statements are prepared using the accrual basis of accounting. Investments are reported at fair value. Securities and mutual funds are based on published quotations while bank investment contracts are stated at contract value. Notes receivable represent loans to participants and are reported at outstanding principal balances. Prudential Retirement Services (a subsidiary of Prudential) provides third party administration of the Plan. The Plan's financial statements are available by contacting the Supplemental Retirement Income Plan of North Carolina, 150 Fayetteville Street Mall, Suite 980, Raleigh, NC 27601.

In addition to the voluntary contribution criteria above, General Statute 143-166.30 requires state contributions to the Plan to provide benefits for all law enforcement officers employed by the State and its component units. General Statute 143-166.50 requires local governmental units with law enforcement officers to also contribute at least as much as the State. Participation begins at the date of employment. State agencies and component units are required to contribute monthly to the individual accounts of participants an amount equal to 5% of each officer's monthly salary. The State is also required to contribute to the individual accounts of all officers on a per capita basis in equal shares. State law enforcement officers receive $.50 for each court cost assessed and collected under General Statute 7A-304, while $1.25 of this assessment goes to local law enforcement officers. General Statutes allow law enforcement officers to voluntarily contribute up to 10% of their compensation within any calendar year, but current Internal Revenue Code provisions define the actual voluntary contribution a law enforcement officer can make. All contributions are immediately vested in the name of each participant. At December 31, 2008, 53 state agencies and component units along with 463 local governmental units outside our reporting entity contributed the required 5%. In addition, 4 state agencies and 450 local government employers contributed to the Plan on a voluntary basis.

The Plan also discloses a related party transaction in Note 20 of this CAFR. Through an agreement with the Plan, as directed by the Board, Prudential Retirement Services provides investment management services along with the third party administration referred to above. The Plan's investment risks are described in Note 3.

The Plan also reported total member contributions of $273.784 million. The payrolls for law enforcement officers, on which the required contributions were based for the year ended December 31, 2008, amounted to $179.69 million for the State, $14.42 million for universities, and $2.8 million for community colleges and other miscellaneous component units. The required 5% employer's contribution was made by the State for $8.98 million, by universities for $721 thousand, and by the remaining component units and community colleges for $140 thousand. In addition, the State contributed $558 thousand for required court cost assessments.

IRC Section 403(b) Plans - Employees of the University of North Carolina System and community colleges can participate in tax-sheltered annuity contracts and custodial accounts created under Internal Revenue Code (IRC) Section 403(b). Generally all employees are eligible, but the IRC does allow the establishment of a minimum contribution of $200 and the exclusion from participation of certain classes of employees. Each institution may exclude one or more of these classes if every employee within the institution meeting the class criteria is excluded from participation. The employees' eligible contributions, made through salary reduction agreements, are exempt from federal and state income taxes until the accumulated balances are received or the contributions are withdrawn. Effective January 1, 1989, contributions may be withdrawn by employees only upon separation from service, death, disability, reaching age 59 1/2 or age 55 with qualifying retirement, or due to certain financial hardships. Currently, there is no restriction on the withdrawal of the value of annuity contracts. Custodial accounts established as of December 31, 1988 can be withdrawn only in respect to hardship established as of December 31, 1988. These plans are exclusively for employees of public educational organizations and certain charitable and other non-profit institutions as defined by the IRC. Since all contributions are made voluntarily by employees, all costs are borne by the plans' participants. No direct costs are incurred by the State.

NOTE 13: OTHER POSTEMPLOYMENT BENEFITS

The State administers two postemployment benefit plans, the Retiree Health Benefit Fund and the Disability Income Plan, as pension and other employee benefit trust funds. Although the assets of the administered plans are commingled for investment purposes, each plan's assets may be used only for payment of benefits to members of that plan and for administrative costs in accordance with the terms of the plan. The plans in this note do not issue separate financial statements. The financial statements and other required disclosures are presented in Note 15 and in the *Required Supplementary Information* section of this *CAFR*.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PLAN ASSET MATTERS

BASIS OF ACCOUNTING

The financial statements of these plans are prepared using the accrual basis of accounting. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of each plan.

INVESTMENTS /SECURITIES LENDING

Pursuant to North Carolina General Statutes, the State Treasurer is the custodian and administrator of the other postemployment benefits funds. The State Treasurer maintains various investment portfolios in its Investment Pool. Investments are reported at fair value, which is based on quoted market prices. The investment balance of the Disability Income Plan represents its share of the fair value of the net assets of the various portfolios within the pool. The Retiree Health Benefit Fund currently does not have investments.

Additionally, the securities lending balance represents assets occurring from securities lending transactions that result from the funds' participation in the pool. The investments of the State Treasurer and securities lending are fully discussed in Note 3.

B. Plan Descriptions and Contribution Information

1. *HEALTH BENEFITS*

Pursuant to North Carolina General Statutes, the State makes available the North Carolina State Health Plan for Teachers and State Employees, referred to as the State Health Plan (the Plan), a cost-sharing multiple-employer defined benefit healthcare plan, exclusively for the benefit of employees and former employees of the State, the University of North Carolina System, community colleges, and certain other component units. In addition, Local Education Agencies (LEAs), miscellaneous educational units, and some select local governments that are not part of the financial reporting entity also participate. At June 30, 2009, the number of participating employers was 258 as shown below:

State of North Carolina	1
LEAs and miscellaneous units	163
Community Colleges	58
University of North Carolina System	19
Proprietary component units	3
Local governments	14

The Plan is reported as an employee benefit trust fund. It is administered by the Executive Administrator and Board of Trustees of the Plan, which establishes premium rates except as may be established by the General Assembly in an appropriation act. Plan benefits received by retired employees and disabled employees are other post employment benefits (OPEB). The healthcare benefits for retired and disabled employees are the same as for active employees as described in Note 14, except that the coverage becomes secondary when former employees become eligible for Medicare.

Those former employees who are eligible to receive medical benefits are long-term disability beneficiaries of the Disability Income Plan of North Carolina (DIPNC) and retirees of the Teachers' and State Employees' Retirement System (TSERS), the Consolidated Judicial Retirement System (CJRS), the Legislative Retirement System (LRS), and the University Employees' Optional Retirement Program (UEORP), with five or more years of contributory membership service in their retirement system prior to disability or retirement, with the following exceptions: for employees first hired on or after October 1, 2006, and members of the General Assembly first taking office on or after February 1, 2007, future coverage as retired employees and retired members of the General Assembly is subject to the requirement that the future retiree have 20 or more years of retirement service credit in order to receive coverage on a noncontributory basis. Employees first hired on or after October 1, 2006 and members of the General Assembly first taking office on or after February 1, 2007 with 10 but less than 20 years of retirement service credit are eligible for coverage on a partially contributory basis. For such future retirees, the State will pay 50% of the State Heath Plan's total noncontributory premium. There is no impact of this legislation in the current fiscal year.

The Plan's benefit and contribution provisions are established by Chapter 135-7, Article 1, and Chapter 135, Article 3A of the General Statutes and may be amended only by the North Carolina General Assembly. The plan does not provide for automatic post-retirement benefit increases.

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and their applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees of the Teachers' and State Employees' Retirement System and contributions to the Fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and their applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. However, Fund assets may be used for reasonable expenses to administer the Fund, including costs to conduct required actuarial valuations of State-supported retired employees' health benefits. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly in the Appropriations Bill.

Because of a budget shortfall during this fiscal year, Executive Order No. 11 reduced member salaries by 0.5 % in order to balance the State's budget. As a result, covered payroll was defined, for contribution purposes, as salary that would have been paid if there was no budget shortfall. For the current fiscal year, the State and the other employers contributed the legislatively mandated 4.1% of covered payroll. The amount associated with this required employer contribution is presented in the three year trend table on the next page. However, the State, as administrator of the State Health Plan, subsidizes benefit payments to retirees through the State Health Plan. This Fund is reported as an employee benefit trust fund. Actual OPEB costs in relation to the total actuarially required contributions for the Plan are disclosed in the *Required Supplementary Information* of this CAFR.

2. *DISABILITY INCOME*

As discussed in Note 14, short-term and long-term disability benefits are provided through the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to the eligible members of the Teachers' and State Employees' Retirement System which includes employees of the State, the University of North Carolina system, community colleges, certain participating proprietary component units and Local Education Agencies (LEAs) which are not part of the reporting entity, and the University Employees' Optional Retirement Program. Long-term disability benefits are payable as an other postemployment benefit from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled. An employee is eligible to receive long-term disability benefits provided the following requirements are met: (1) the employee has five or more years of contributing membership service in the Teachers' and State Employees' Retirement System (TSERS) or the University Employees' Optional Retirement Program, earned within 96 months prior to the end of the short-term disability period or cessation of salary continuation payments, whichever is later; (2) the employee must make application to receive long-term benefits within 180 days after the conclusion of the short-term disability period or after salary continuation payments cease or after monthly payments for Workers' Compensation cease (excluding monthly payments for permanent partial benefits), whichever is later; (3) the employee must be certified by the Medical Board to be mentally or physically disabled for the further performance of his/her usual occupation; (4) the disability must have been continuous, likely to be permanent, and incurred at the time of active employment; (5) the employee must not be eligible to receive an unreduced retirement benefit from the TSERS; and (6) the employee must terminate employment as a permanent, full-time employee. An employee is eligible to receive an unreduced retirement benefit from the TSERS after (1) reaching the age of 65 and completing five years of creditable service, or (2) reaching the age of 60 and completing 25 years of creditable service, or (3) completing 30 years of creditable service, at any age.

The monthly long-term disability benefit is equal to 65% of one-twelfth of an employee's annual base rate of compensation last payable to the participant or beneficiary prior to the beginning of the short-term disability period, plus the like percentage of one twelfth of the annual longevity payment to which the participant or beneficiary would be eligible. The monthly benefits are subject to a maximum of $3,900 per month reduced by any primary Social Security disability benefits and by monthly payments for Workers' Compensation to which the participant or beneficiary may be entitled, but the benefits payable shall be no less than $10 a month. When an employee qualifies for an unreduced service retirement allowance from the TSERS, the benefits payable from DIPNC will cease, and the employee will commence retirement under the Teachers' and State Employees' Retirement System or the University Employees' Optional Retirement Program.

Although the DIPNC operates on a calendar year, disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly and coincide with the state fiscal year. Because of a budget shortfall during this fiscal year, Executive Order No. 11 reduced member salaries by 0.5 % in order to balance the State's budget. As a result, covered payroll was defined, for contribution purposes, as salary that would have been paid if there was no budget shortfall. For the fiscal year ended June 30, 2009, the State and the other employers made a statutory contribution of .52% of covered payroll. This was greater than the actuarially required contribution of .51%. The State's total payments are shown in the following table. Actuarially required contributions and the percentage received from all employers can be found in the *Required Supplementary Information* of this CAFR.

The contributions cannot be separated between the amounts that relate to other postemployment benefits and employment benefits for active employees. Those individuals who are receiving extended short-term disability benefit payments cannot be separated from the number of members currently eligible to receive disability benefits as an other postemployment benefit.

Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes and may be amended only by the North Carolina General Assembly. By statute, the DIPNC is administered by the Department of State Treasurer and the Board of Trustees of the Teachers' and State Employees' Retirement System. The plan does not provide for automatic post-retirement benefit increases.

The following table presents the three year trend of the annual required contributions (ARC) the State and its component units made to the plans required by GASB 45. Fiscal year 2007 data represents required and contributed amounts to the plans prior to implementation of GASB 45. The ARC equals the State's OPEB cost as an employer.

State of North Carolina's Annual Required Contributions (ARC)
and Annual OPEB Cost as an Employer
For the Years Ended June 30, 2007 through June 30, 2009
(dollars in thousands)

	Retiree Health Benefit	Disability Income
Primary Government:		
2009	$ 155,156	$ 19,678
2008	135,051	17,128
2007	117,930	16,138
Component units:		
Universities:		
2009	$ 120,128	$ 15,236
2008	120,871	15,330
2007	104,297	14,272
Community Colleges:		
2009	$ 31,838	$ 4,038
2008	30,015	3,807
2007	26,642	3,646
Proprietary Funds:		
2009	$ 873	$ 111
2008	870	110
2007	815	112
Total Primary Government and Component Units:		
2009	$ 307,995	$ 39,063
2008	286,807	36,375
2007	249,684	34,168
Percentage of ARC Contributed:		
2009	100%	100%
2008	100%	100%
2007	100%	100%

The following table summarizes membership information by plan at the actuarial valuation date:

	Retiree Health Benefit	Disability Income
Employee Groups		
Retirees and beneficiaries currently receiving benefits	157,216	n/a
Disabled members receiving long term disability benefits	n/a	6,214
Terminated employees entitled to benefits but not yet receiving them	32,341	-
Active plan members	355,608	338,951
Total	545,165	345,165
Date of valuation	*12/31/08*	*12/31/08*

The funded status of each plan as of the most recent actuarial valuation date is as follows (dollars in thousands):

	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c) (3)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
Retiree Health (1)	12/31/08	$ 434,769	$ 28,288,439	$ 27,853,670	1.5%	$ 15,295,560	182.1%
Disability Income (2)	12/31/08	$ 350,145	$ 477,574	$ 127,429	73.3%	$ 14,493,066	0.9%

(1) The AAL has been prepared using the projected unit credit cost method.
(2) The AAL has been prepared using the entry age actuarial cost method. The information presented is intended to approximate the funding progress of the plan as required by GASB Statements 43 and 45.
(3) Buck Consulting reported the unadjusted covered payroll for the DIPNC long-term disability benefits. Aon Consulting reported the adjusted, annualized payroll for postemployment health benefits.

C. Actuarial Methods and Assumptions

Actuarial valuations of the plans involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The latest actuarial valuation for Retiree Health is dated December 31, 2008. The latest actuarial valuation for DIPNC is dated December 31, 2008. The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The actuarial assumptions used for the Retiree Health Benefit are consistent with those used to value the pension benefits of the TSERS where appropriate. These assumptions are based on the most recent experience study prepared as of December 31, 2004 and adopted beginning with the December 31, 2005 pension valuation. The discount rate used for Retiree Health reflects a pay-as-you-go approach.

Projections of benefits for financial reporting purposes of the plans are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. Historically, the benefits funded solely by employer contributions applied equally to all retirees. Currently, as described earlier in the note, benefits are dependent on membership requirements.

The actuarial methods and assumptions used for DIPNC include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

NOTES TO THE FINANCIAL STATEMENTS

Below are listed the actuarial methods and significant assumptions for these valuations that will be used to determine future annual required contributions.

	Retiree Health Benefit	Disability Income
Valuation Date	12/31/08	12/31/08
Actuarial Cost Method	Projected Unit Credit	Aggregate
Amortization Method	Level percent of pay	Level percent of pay
Remaining Amortization Period	30 years	(1)
Period Open/Closed	Open	(1)
Asset Valuation Method	Market Value of Assets	5 year smoothed
Actuarial Assumptions:		
Investment Rate of Return (2)	4.25%	7.25%
Healthcare Cost Trend Rate (2) (3)	9% initial 5% ultimate	N/A
Projected Salary Increases (4)	N/A	4.5-16.1%

(1) The aggregate cost method does not identify or separately amortize unfunded liabilities, thus information about the plan's funded status and funding progress has been prepared using the entry age actuarial cost method. The information presented is intended to approximate the funding progress of the plan.

(2) Includes inflation at 3.75%.

(3) Trend rates apply to both Medicare eligible and pre-Medicare-eligible members.

(4) Aon Consulting used the projected unit credit method which does not include salaries, thus salary increases are not applicable for FY2009.

N/A Not Applicable

NOTE 14: RISK MANAGEMENT AND INSURANCE

A. Public Entity Risk Pool

Public School Insurance Fund

The Public School Insurance Fund (the Fund) is a public entity risk pool reported within the enterprise funds. In accordance with Chapter 115C, Article 38, of the General Statutes, the purpose of the Fund is to insure the Local Education Agencies (LEAs), in order to safeguard the property investments made in the public schools of North Carolina. The community colleges, which are component units, can also acquire insurance through the Fund as stated in General Statute 115D-58.11(c). The board of each LEA and the board of trustees of each community college are required to insure their buildings and contents on a replacement cost basis, as suggested by the Fund. The Fund is financed by premiums collected from the LEAs and the community colleges and interest is earned on the Fund's cash balance. Each board has to give notice of its election to insure in the Fund at least 30 days prior to such insurance becoming effective and shall furnish to the Fund a detailed list of all school buildings, contents and other insurable school property. While policies remain in effect, the Fund shall act as insurer of the properties covered by such insurance. The Fund currently insures 92 out of 115 LEAs and 28 out of 58 community colleges.

Claim liabilities are based on estimates of the ultimate cost of losses that have been reported but not settled. There are no salvage claims since any salvage is adjusted in the claim settlement. There are no subrogation claims pending. Since claims are reviewed by adjusters and the actual loss projection is computed in a short time after the claim is reported, the claim adjustment expense associated with the unpaid claim liability will be reflected in the current period. The Fund does consider investment income in determining if a premium deficiency exists.

The only acquisition costs are related to proposal costs and inspection costs for insured members. Since the Fund can only insure the LEAs and the community colleges, new contracts are immaterial. Since existing contracts are renewed once a year, the Fund's costs are for policy maintenance. Therefore, acquisition costs do not need to be amortized.

The following schedule shows the changes in the reported liability for the past two years (dollars in thousands):

	Fiscal Year	
	2009	2008
Unpaid claims at beginning of year	$ 292	$ 3,730
Incurred claims:		
Provision for insured events of the current year	2,408	1,915
Increases (decreases) in provision for insured events of prior years	106	27
Total incurred claims	2,514	1,942
Payments:		
Claims attributable to insured events of the current year	1,746	1,426
Claims attributable to insured events of the prior years	603	3,954
Total payments	2,349	5,380
Total unpaid claims at end of the year	$ 457	$ 292

With the collection of premiums from the insured educational units, payment of valid claims becomes the responsibility of the Fund. All claims greater than $10 million per occurrence are covered by reinsurance contracts. Maximum recoverable from reinsurance for any one catastrophic event is $45.5 million per occurrence. Losses in excess of the reinsurance limit would be paid by the Fund from long-term investments, subject to the maximum amount of available funds. Annual aggregate limits of $15 million apply separately with respect to flood and earthquake. Coverage applies to "all risk" perils. Boiler and machinery coverage is provided under separate contract underwritten by the Fund. Incurred losses are reduced by estimated amounts recoverable under the Fund's reinsurance policies. Currently, the Fund is in the process of collecting money from the reinsurer for the loss paid to the East Guilford High School due to fire that occurred November 1, 2006.

B. Employee Benefit Plans

1. State Health Plan

In accordance with Chapter 135, Article 3A, Part 3, of the General Statutes, the State established the North Carolina State Health Plan for Teachers and State Employees, referred to as the State Health Plan (the Plan). The Plan provides comprehensive healthcare benefits for employees and retirees of the State and its participating component units, as well as their qualified dependents on a contributory basis. This care is also extended to employees and retirees of the Local Education Agencies (LEAs), and other employing units allowed by statute, which are not part of the State's reporting entity.

Coverage is self-funded by contributions to the Plan, which is reported as a pension and other employee benefit trust fund. Contributions for employee and retiree coverage are made by the State, its participating component units, LEAs, and other qualified employing units. Contributions for dependent coverage are made by employees and retirees. As described in Note 13, coverage is also extended to certain individuals as an other postemployment benefit. The Plan has contracted with third parties to process claims.

The Plan pays most expenses that are medically necessary and eligible for coverage based on usual, customary and reasonable allowances for indemnity plan members and allowed amounts for Preferred Provider Organization (PPO) plan members. Claims are subject to specified annual deductible and co-payment requirements. The Plan disallows claims in excess of a lifetime maximum of $5 million for the indemnity plan but an unlimited benefit is provided for the Preferred Provider Organization (PPO) plans. The authority for the PPO plans is provided in General Statute 135-39.5B. Effective July 1, 2008, the Current Operations and Capital Improvements Appropriations Act of 2007, Session Law 2007-323, approved the elimination of the indemnity plan.

Claim liabilities are based on estimates of the ultimate cost of claims that have been incurred (both reported and unreported). Claim liabilities do not include nonincremental claims adjustment expenses. Changes in the Plan's aggregate liabilities for claims for the past two fiscal years are as follows (dollars in thousands):

	Beginning of Fiscal Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2007-08	$ 189,643	$ 2,222,744	$ (2,149,145)	$ 263,242
2008-09	263,242	2,458,583	(2,463,675)	258,150

2. Death Benefit Plan of North Carolina

Term life insurance (death benefits) is provided through the Death Benefit Plan, a pension and other employee benefit trust fund, to all members of the Teachers' and State Employees' Retirement System who have completed at least 12 consecutive months of membership in the System. Membership includes employees of the State, the University of North Carolina System, community colleges, and certain participating proprietary component units. Employees of Local Education Agencies (LEAs) and miscellaneous educational units which are not part of the reporting entity are also included. The benefit payment is equal to the greater of (1) the compensation on which contributions were made by the member during the calendar year preceding the year in which his/her death occurs or (2) the member's highest 12 month's salary in a row during the 24 months prior to his/her death. The benefit is subject to a minimum of $25,000 and to a maximum of $50,000.

For the period July 1, 2008 to June 30, 2009, death benefits were funded by actuarially based employer contributions that are established in the biennial appropriation bill by the General Assembly. The State, the University of North Carolina System, community colleges, participating proprietary component units, LEAs and other miscellaneous educational units contributed 0.16% of covered payroll (as defined in Note 13) to fund the Death Benefit Plan for the period July 2008 to June 2009.

These benefits are established by General Statute 135-5(1) and may be amended only by the North Carolina General Assembly. Claims liabilities are based on estimates of the ultimate cost of claims that have been incurred (both reported and unreported).

Changes in the aggregate liabilities for claims for the past two fiscal years are as follows (dollars in thousands):

	Beginning of Fiscal Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2007-08	$ 3,600	$ 37,188	$ (36,607)	$ 4,181
2008-09	4,181	38,072	(38,993)	3,260

3. Disability Income Plan of North Carolina

Short-term and long-term disability benefits are provided through the Disability Income Plan of North Carolina (DIPNC), a pension and other employee benefit trust fund, to the eligible members of the Teachers' and State Employees' Retirement System which includes employees of the State, the University of North Carolina System, community colleges, certain participating proprietary component units and the University Employees' Optional Retirement Program. Employees of Local Education Agencies (LEAs) and miscellaneous educational units which are not part of the reporting entity are also included. Short-term benefits are payable after a waiting period of 60 continuous calendar days from the onset of disability, which is determined as the last actual day of service or the day succeeding at least 365 calendar days after the commencement of service, whichever is later. Short-term benefits are provided to currently active employees and the related liability is not measurable. As discussed in Note 13, long-term disability benefits are payable as an other postemployment benefit from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled. These benefits are established by Chapter 135, Article 6, of the General Statutes and may be amended only by the North Carolina General Assembly.

C. Other Risk Management and Insurance Activities

1. Automobile, Fire and Other Property Losses

The State is required by Chapter 58, Article 31, Part 50, of the General Statutes to provide liability insurance on every state-owned motor vehicle, which includes vehicles held by the State's participating component units. The State is self-insured for the first $1 million of any loss through a retrospective rated plan. The plan purchases excess insurance through a private insurer to cover losses greater than $1 million up to $10 million per occurrence. Covered losses include those that occur with vehicles that are not on a stationary track or rail, and federal vehicles when the Governor calls out the National Guard.

Agencies of the State and participating component units using state cars are charged premiums to cover the cost of the excess insurance and to pay for those losses falling under the self-insured retention. Premiums charged are also based on the projected losses to be incurred. The private insurer processes all claims and sets up a reserve for amounts expected to be paid for claims. Claims are paid by the private insurer after they are approved by the Attorney General's Office. Settled claims have not exceeded coverage in any of the past three fiscal years.

The State Property Fire Insurance Fund (the Fund), an internal service fund of the State, was created by Chapter 58, Article 31, of the General Statutes. The Fund insures State owned buildings and contents for fire, extended coverage, and other property losses. The Fund does not charge premiums for fire insurance for operations that are supported by the State's General Fund. Those operations that are not supported by the State's General Fund are charged for fire coverage. Agencies of the State can purchase extended coverage and other property coverage such as sprinkler leakage, business interruption, vandalism, theft, and "all risk" for buildings and contents through the Fund. For those that elect to receive any of this other coverage, the Fund charges premiums discounted from industry manual rates. The Fund insures losses up to $2.5 million per occurrence. All losses covered by the Fund are subject to a $5,000 per occurrence deductible. However, some agencies have chosen a higher deductible for a reduction in premium.

The Fund purchases excess insurance from private insurers to cover losses over the amounts insured by the Fund. If aggregate uninsured losses sustained by the Fund, in excess of $50,000 per loss, other than flood and earthquake losses and wind losses by named storms, reach $5 million in any one annual period, the Fund's deductible for the remainder of the annual period is $100,000 per occurrence. Settled claims have not exceeded coverage in any of the past three fiscal years.

Claims of $10,000 or higher are paid when the Council of State approves the request for payment. Claims less than $10,000 are paid without Council of State approval. Claims costs are recognized when they are approved by the Council of State and are outstanding for payment; when known estimates of losses are waiting to be submitted to the Council of State for approval; or when a loss occurs and can be reasonably estimated.

Outstanding claims to be paid by the Fund at June 30, 2009 are disclosed on the balance sheet as claims payable. Certain other claim costs associated with third party private insurers are classified as accounts payable. The 2008 fiscal year activity and claims payable are restated for prior period misclassification of these private insurer costs that should have been accounts payable, and to properly report comparative activity. Current year claims and changes in estimates correctly reflect the fund's $1.785 million in normal claims processing for this fiscal year.

Changes in the balances of claims liabilities for the past two fiscal years are as follows (dollars in thousands):

	Beginning of Fiscal Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2007-08	$ 6,513	$ 1,170	$ (5,607)	$ 2,076
2008-09	2,076	1,785	(1,771)	2,090

2. Medical Malpractice Protection

a. Professional Liability Insurance for State Medical Personnel

All agencies of the State and participating component units are insured for tort claims up to $1 million under the authority of the State Tort Claims Act, Chapter 143, Article 31, of the General Statutes. Organizations within the reporting entity carry excess commercial liability insurance to supplement the coverage provided by the State Tort Claims Act; however, claims involving medical malpractice are generally excluded from this coverage. The University of North Carolina at Chapel Hill Medical School and UNC Hospitals participate in the Liability Insurance Trust Fund, which is described in detail below. All other universities purchase commercial liability insurance. Chapter 237, Section 11.33, of the 1999 Session Laws of North Carolina authorized the Department of Health and Human Services, the Department of Environment and Natural Resources, and the Department of Correction to provide medical liability coverage on behalf of employees licensed to practice medicine or dentistry; all licensed physicians who are faculty members of the University of North Carolina who work on contract for the Division of Mental Health, Developmental Disabilities, and Substance Abuse Services for incidents that occur in Division programs; and on behalf of medical residents from the University of North Carolina who are in training at institutions operated by the Department of Health and Human Services. The extent of coverage is a maximum of $1 million for each individual incident and does not affect current coverage under the State Tort Claims Act. The Department of Health and Human Services, the Department of Environment and Natural Resources, and the Department of Correction purchase commercial professional liability insurance for their medical staff. Settled claims have not exceeded coverage in any of the past three fiscal years.

Insurance coverage varies depending upon the amount of coverage and the type of policy. Typically the amount of primary coverage for medical liability is $1 million per individual, claim, or incidence, and $3 million total or aggregate. Many departments and institutions maintain excess policies to provide additional coverage above that provided by the primary policy for medical liability. The policies are written on a claims made or occurrence basis, with the majority of the policies being claims made. The claims liabilities are not measurable.

b. Self-Insurance through the Liability Insurance Trust Fund

The Liability Insurance Trust Fund (Trust Fund) was created by Chapter 116, Article 26, of the General Statutes and the University of North Carolina Board of Governors Resolution of June 9, 1978, to provide medical malpractice protection for program participants and individual health care practitioners working as employees, agents, or officers of the program participants. The program participants are the University of North Carolina Hospitals at Chapel Hill and the University of North Carolina at Chapel Hill Physicians and Associates, both of whom are a part of the University of North Carolina System, which is a component unit of the reporting entity. Coverage is self-funded by contributions from participants and investment income. Contributions are based on the actuarially determined funding level for a given plan year.

For the periods ending June 30, 2008 and June 30, 2009, the Trust Fund provided coverage on an occurrence basis of $3 million per individual and $7 million in the aggregate per claim. Reinsurance coverage under this policy carries a $10 million aggregate limit in excess of a self-insured aggregate retention of $33 million subject to a $7 million per occurrence limit (sub-limit of $3 million per individual) with a $200,000 continuing underlying amount per claim. Excess of loss coverage is also in place at various levels for prior periods. Excess reinsurance coverage was not purchased for the policy years ending June 30, 2008 and June 30, 2009, as the Trust Fund chose to retain 100% of the liability. In lieu of reinsurance, the participants contributed $10 million in the aggregate toward the Reimbursement Fund for future losses. In fiscal year 2009, there was a $2 million receivable from the Reimbursement Fund based on claims paid.

The Trust Fund purchased a primary policy for dental residents on a claims made basis with $1 million per occurrence and $3 million annual aggregate limits of coverage. In the event the Trust Fund has insufficient funds to pay existing and future claims, it has the authority to borrow necessary amounts up to $30 million. Any such borrowing would be repaid from the assets and revenues of program participants. No borrowings have been made under this authority to date. The Trust Fund council believes adequate funds are on deposit in the Trust Fund to meet estimated losses based upon the results of the independent actuary's report.

The Trust Fund establishes claim liabilities based on estimates of the ultimate cost of all losses and loss adjustment expenses, including losses and loss adjustment expenses incurred but not yet reported, which are unpaid at the balance sheet date. The claims liabilities of $60.958 million and $45.215 million are the present values of the aggregate actuarially determined claims liabilities of $64.107 million and $44.181 million, discounted at 5% at June 30, 2008 and 2.5% at June 30, 2009. These estimates are reviewed annually, and as adjustments become necessary, such adjustments are reflected in current operations. Claims against participants are paid from the corpus of the Trust Fund. Changes in the Trust Fund's aggregate liabilities for claims for the past two fiscal years are as follows (dollars in thousands):

	Beginning of Fiscal Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2007-08	$ 50,678	$ 14,874	$ (4,594)	$ 60,958
2008-09	60,958	3,868	(19,611)	45,215

3. Public Officers' and Employees' Liability Insurance

In accordance with Chapter 58, Article 32, Part 15, of the General Statutes, public officers' and employees' liability insurance is provided by private insurers for all employees of the State and participating component units except for doctors and dentists. The policy provides $10 million excess insurance over the $1 million statutory limit payable for any one claim under the State Tort Claims Act. The first $150,000 of an award against a state agency is the responsibility of the state agency's General Fund budget code or up to $1 million if a Non-General Fund budget code. For General Fund budget codes, any award greater than $150,000 but less than $1 million is funded by proportionate shares of estimated lapse salaries from all agencies General Fund budget codes. Since state agencies and component units are responsible for funding any tort claims of $1 million or less from their budget and/or lapse salaries, total claims liabilities are not measurable. Employers are charged a premium for the excess insurance based on a composite rate. The employers pay the premiums directly to the private insurer. Settled claims have not exceeded coverage in any of the past three fiscal years.

4. Employee Dishonesty and Computer Fraud

Blanket public employee dishonesty and computer fraud insurance is provided for agencies of the State and its component units with a limit of $5 million per occurrence, subject to a 10% participation in each loss and a $75,000 deductible. This coverage is placed with a private insurance company and is handled by the North Carolina Department of Insurance. Agencies of the State and its component units are charged premiums by the private insurance company. A small number of state agencies and component units of the State require faithful performance coverage in addition to employee dishonesty coverage. In these instances, separate policies have been purchased. The amounts of coverage and the deductibles vary among these separate policies. Settled claims have not exceeded coverage in any of the past three fiscal years.

5. Statewide Workers' Compensation Program

The Workers' Compensation Program (the Program) was created by Chapter 97, Article 1, of the General Statutes to provide benefits to workers injured on the job. All employees of the State and its component units are included in the Program. An injury is covered under workers' compensation if it is caused by an accident that arose out of and in the course of employment. Also, certain occupational diseases specifically designated in the North Carolina Workers' Compensation Act are compensable. Losses payable by the Program include medical claims, loss of wages, disability, and death benefits. Payments of all medical benefits are subject to approval based on a fee schedule established by the North Carolina Industrial Commission (NCIC). Loss of wages and disability benefits are payable based on 66 2/3% of an employee's average weekly salary subject to a statutory compensation rate minimum and maximum established annually by the NCIC. Death benefits are payable for 400 weeks at 66 2/3% of an employee's average weekly salary. In certain instances, death benefits may be extended beyond the 400 weeks.

The responsibility for claiming compensation is on the injured employee. If the injured employee or his representative does not notify the employer within 30 days from the date of injury, the employer can refuse compensation. A claim must be filed with the NCIC by either the employee or the employer within two years from the date of knowledge thereof; otherwise the claim is barred by law and no further compensation is allowable. When an employee is injured, the employer's primary responsibility is to arrange for and provide the necessary treatment for any work-related injury. The employer tries to provide the best possible medical care for injured employees to help them reach maximum medical improvement and return to work as soon as possible.

The State and its component units are self-insured for workers' compensation. A third-party administrator handles workers' compensation claims except for the Department of Transportation. State agencies and participating component units contribute to a fund administered by the Office of the State Controller to cover their workers' compensation claims. The third party administrator receives a per case administration fee and draws down state funds to make medical and indemnity payments on behalf of the State in accordance with the North Carolina Workers' Compensation Act.

Each state agency and participating component unit is billed for claims and an administrative fee which is paid by the fund to the third party administrator. This fund is reported as an internal service fund in this report. Budgets for workers' compensation for most state agencies and participating component units are based on the prior year's loss experience. Since the related liability is not measurable, claim costs are recognized when paid. The Department of Transportation is the only state agency that sets up a reserve for claims. For the year ended June 30, 2009, workers' compensation costs were recognized as follows (dollars in thousands):

Primary government	$ 90,914
University of North Carolina System	8,404
All other component units	50
Total	$ 99,368

6. Workers' Compensation Fund

The Workers' Compensation Fund (the Fund) is an insurance enterprise reported within the enterprise funds. The Fund is created in the Department of Insurance (the Department) and is administered by the State Fire and Rescue Commission (the Commission) through a service contract with a third-party administrator. In accordance with Chapter 58, Article 87, of the General Statutes, the purpose of the Statewide Workers' Compensation Program (the Program) is to provide workers' compensation benefits to members of "eligible units," which consist of volunteer fire departments or volunteer rescue/EMS units that are not part of a unit of local government and are exempt from state income tax under General Statute 105-130.11. These eligible units are not part of the reporting entity. Benefits are payable for compensable injuries or deaths which occurred on or after July 1, 1996. The Fund is financed by appropriations made to the Department for this purpose and by per capita fixed dollar amounts for each member of a participating eligible unit's roster. The per capita fixed dollar amount is set annually by the Commission and is paid by the eligible units to the Commission on or before July 1 of each year for credit to the Fund. If payment is not received by July 1, the eligible unit shall not receive workers' compensation coverage for that fiscal year. The appropriation for the fiscal year ended June 30, 2009 was $3.116 million. As of June 30, 2009, the Fund consisted of 1,234 eligible units representing approximately 44,967 members.

The liability for unpaid claims is based on an actuarial determination and represents a reasonable estimate of the ultimate cost of open claims and claim settlement expenses that are unpaid as of the fiscal year end, including incurred but not reported losses. The liability for unpaid claims is continually reviewed, and as adjustments become necessary such adjustments are included in current operations. Claim liabilities do not include nonincremental claims adjustment expenses. The Program considers anticipated investment income in determining if a premium deficiency exists. The Program recognizes subrogation from third parties as a reduction to claim and claim settlement expenses incurred. As of June 30, 2009, there was no reduction for subrogation.

Acquisition costs consist of commission payments to independent insurance agents for marketing, promotional and administrative assistance with policy maintenance to eligible units. As coverage is renewed annually, acquisition costs are not amortized.

The Program maintains both specific excess of loss and aggregate reinsurance coverage. The specific excess of loss coverage provides for statutory limits above the Program's retention of $500,000 per occurrence and a $1.5 million limit for employer's liability above the Program's retention of $500,000 per occurrence. Incurred losses are reduced by estimated amounts recoverable under the Program's excess of loss and aggregate reinsurance policies. As of June 30, 2009, there are claims recoverable from reinsurers in the amount of $23 thousand.

The following schedule shows the changes in the reported liability for the past two fiscal years (dollars in thousands):

	Beginning of Fiscal Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2007-08	$ 10,872	$ 9,421	$ (5,250)	$ 15,043
2008-09	15,043	6,104	(5,901)	15,246

7. Health Insurance Program for Children

The Health Insurance Program for Children (the Program) is an insurance enterprise reported within the General Fund. The Program was created by Chapter 108A, Article 2, Part 8, of the General Statutes to provide comprehensive health insurance coverage to uninsured low-income children who are residents of this State, including coverage for dental, hearing, and vision services and supplies.

Coverage is provided from federal funds received, state funds appropriated, and other nonappropriated funds made available for this purpose. All appropriations, allocations, premium receipts, or any other receipts, including earnings on investments, occurring or arising in connection with acute medical care benefits provided under the Program are deposited into the Child Health Insurance Fund (the Fund). Disbursements from the Fund include any and all amounts required to pay the benefits and administrative costs of the Program. For the fiscal year ended June 30, 2009, $66.77 million was appropriated from the General Fund to the North Carolina Department of Health and Human Services (DHHS) to be used for the Program.

The Program is administered by DHHS. Eligible children may be enrolled by the Division of Social Services based on the availability of funds. The North Carolina State Health Plan for Teachers and State Employees (The Plan) is responsible for the administration and processing of claims for benefits under the Program, as provided under Chapter 135, Article 3A, Part 5 of the General Statutes. The Plan shall not incur any financial obligations for the Program in excess of the amount of funds that the Plan receives for the program. Effective July 1, 2010, the administration and processing of claims for benefits under the Program will be transferred to DHHS as outlined in HB 2436 SL 2008-107 Sec 10.13(b) General Statute 135-47.

Annual enrollment fees, co-payments, or other cost-sharing charges are determined by family income. However, there are no enrollment fees, deductibles, co-payments, or other cost-sharing charges for families covered under the Program whose family income is at or below 150% of the federal poverty level. A family's total annual aggregate cost-sharing charges shall not exceed 5% of the family's income for the year involved. The Program had an enrollment of 139,965 children as of June 30, 2009, and an average enrollment of 133,703 children insured during the year.

Claim liabilities are based on estimates of the ultimate cost of claims that have been incurred (both reported and unreported). Claim liabilities do not include nonincremental claims adjustment expenses. The following schedule shows the changes in the claims liability for the Program's past two years of operation (dollars in thousands):

	Beginning of Fiscal Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2007-08	$ 22,163	$ 207,237	$ (202,798)	$ 26,602
2008-09	26,602	224,071	(226,175)	24,498

NOTE 15: INDIVIDUAL PLAN FINANCIAL STATEMENTS – PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS

Financial statements for Pension and Other Employee Benefit Trust Funds as of and for the fiscal year ended June 30, 2009 are presented below.

COMBINING STATEMENT OF PLAN NET ASSETS

June 30, 2009

(Dollars in Thousands)

	Teachers' and State Employees' Retirement System	Consolidated Judicial Retirement System	Legislative Retirement System	Firemen's and Rescue Squad Workers' Pension Fund	North Carolina National Guard Pension Fund	Local Governmental Employees' Retirement System	401(k) Supplemental Retirement Income Plan
Assets							
Cash and cash equivalents	$ 77,328	$ 898	$ 91	$ 728	$ 924	$ 67,616	$ 57,783
Investments:							
U.S government and agency securities	—	—	—	—	—	—	376,049
Mortgage pass throughs	—	—	—	—	—	—	53,116
Collateralized mortgage obligations	—	—	—	—	—	—	512,068
Government bonds	—	—	—	—	—	—	10,379
Asset-backed securities	—	—	—	—	—	—	10,704
Repurchase agreements	—	—	—	—	—	—	—
Annuity contracts	—	—	—	—	—	—	—
Corporate bonds	—	—	—	—	—	—	286,668
Mutual funds	—	—	—	—	—	—	2,231,915
State Treasurer investment pool	45,256,207	357,737	24,715	263,113	63,877	14,258,396	—
Securities lending collateral	6,436,443	50,963	3,532	37,514	9,392	2,045,104	326,607
Receivables:							
Accounts receivable	3,654	65	—	31	10	3,220	33,989
Intergovernmental receivable	—	—	—	—	—	—	—
Interest receivable	421	3	—	3	1	147	11,436
Contributions receivable	51,082	—	—	—	—	31,287	5,801
Due from other funds	29,239	1,118	21	—	—	—	—
Due from component units	4,983	—	—	—	—	—	—
Notes receivable	—	—	—	—	—	—	183,203
Capital assets-depreciable, net	—	—	—	—	—	—	—
Total Assets	51,859,357	410,784	28,359	301,389	74,204	16,405,770	4,099,718
Liabilities							
Accounts payable and accrued liabilities:							
Accounts payable	—	—	—	—	—	—	79,366
Benefits payable	1,118	—	—	13	8	329	—
Medical claims payable	—	—	—	—	—	—	—
Obligations under securities lending	6,436,443	50,963	3,532	37,514	9,392	2,045,104	326,607
Due to other funds	—	—	—	—	—	—	—
Notes payable	—	—	—	—	—	—	—
Unearned revenue	—	—	—	—	—	—	—
Compensated absences	—	—	—	—	—	—	—
Total Liabilities	6,437,561	50,963	3,532	37,527	9,400	2,045,433	405,973
Net Assets							
Held in trust for:							
Employees' pension and other benefits	45,421,796	359,821	24,827	263,862	64,804	14,360,337	3,693,745
Total Net Assets	$ 45,421,796	$ 359,821	$ 24,827	$ 263,862	$ 64,804	$ 14,360,337	$ 3,693,745

Deferred Compensation Plan	Death Benefit Plan of N.C.	State Health Plan	Retiree Health Benefit Fund	Disability Income Plan of N.C.	Sheriffs' Pension Fund	Register of Deeds' Supplemental Pension Fund	*Totals*
$ 71	$ 2,426	$ 189,901	$ 456,991	$ 7,369	$ 1,968	$ 30	$ 864,124
154,133	—	—	—	—	—	—	530,182
—	—	—	—	—	—	—	53,116
—	—	—	—	—	—	—	512,068
—	—	—	—	—	—	—	10,379
14,751	—	—	—	—	—	—	25,455
6,700	—	—	—	—	—	—	6,700
23,780	—	—	—	—	—	—	23,780
10,519	—	—	—	—	—	—	297,187
414,636	—	—	—	—	—	—	2,646,551
—	299,716	—	—	323,473	—	36,329	60,883,563
—	109,281	79,622	174,140	119,757	750	13,144	9,406,249
145	—	41,544	—	4,904	—	—	87,562
—	—	25,818	—	—	—	—	25,818
838	3	291	684	16	3	—	13,846
125	1,098	1,450	25,609	3,243	—	97	119,792
—	504	—	13,892	1,731	—	—	46,505
—	85	—	3,068	389	—	—	8,525
4,017	—	—	—	—	—	—	187,220
—	—	87	—	—	—	—	87
629,715	413,113	338,713	674,384	460,882	2,721	49,600	75,748,709
67	143	29,688	—	—	—	—	109,264
—	3,260	—	—	58	—	—	4,786
—	—	258,150	—	—	—	—	258,150
—	109,281	79,622	174,140	119,757	750	13,144	9,406,249
—	—	3	—	—	—	—	3
—	—	9,344	—	—	—	—	9,344
—	—	60,489	—	—	—	—	60,489
—	—	204	—	—	—	—	204
67	112,684	437,500	174,140	119,815	750	13,144	9,848,489
629,648	300,429	(98,787)	500,244	341,067	1,971	36,456	65,900,220
$ 629,648	$ 300,429	$ (98,787)	$ 500,244	$ 341,067	$ 1,971	$ 36,456	$65,900,220

COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS

For the Fiscal Year Ended June 30, 2009

(Dollars in Thousands)

	Teachers' and State Employees' Retirement System	Consolidated Judicial Retirement System	Legislative Retirement System	Firemen's and Rescue Squad Workers' Pension Fund	North Carolina National Guard Pension Fund	Local Governmental Employees' Retirement System	401(k) Supplemental Retirement Income Plan
Additions:							
Contributions:							
Employer	$ 492,689	$ 10,603	$ —	$ —	$ —	$ 271,363	$ 164,824
Members	866,209	4,221	258	2,490	—	326,309	273,784
Other contributions	—	—	—	9,762	5,892	—	—
Total contributions	1,358,898	14,824	258	12,252	5,892	597,672	438,608
Investment Income:							
Investment earnings (loss)	(7,454,711)	(58,255)	(4,199)	(42,686)	(9,899)	(2,283,663)	(1,018,472)
Less investment expenses	(290,608)	(2,296)	(162)	(1,692)	(409)	(90,354)	(6,313)
Net investment income (loss)	(7,745,319)	(60,551)	(4,361)	(44,378)	(10,308)	(2,374,017)	(1,024,785)
Other additions:							
Fees, licenses and fines	—	—	—	—	—	4,786	—
Miscellaneous	1,626	3	—	2	1	7	—
Total other additions	1,626	3	—	2	1	4,793	—
Total additions	(6,384,795)	(45,724)	(4,103)	(32,124)	(4,415)	(1,771,552)	(586,177)
Deductions:							
Claims and benefits	3,081,350	27,699	1,930	21,790	6,049	755,196	210,560
Medical insurance premiums	—	—	—	—	—	—	—
Refund of contributions	70,900	88	148	317	—	43,523	—
Administrative expenses	13,151	44	13	1,078	76	5,371	757
Other deductions	40	—	—	—	—	—	—
Total deductions	3,165,441	27,831	2,091	23,185	6,125	804,090	211,317
Change in net assets	(9,550,236)	(73,555)	(6,194)	(55,309)	(10,540)	(2,575,642)	(797,494)
Net assets — July 1 as restated	54,972,032	433,376	31,021	319,171	75,344	16,935,979	4,491,239
Net assets — June 30	$ 45,421,796	$ 359,821	$ 24,827	$ 263,862	$ 64,804	$ 14,360,337	$ 3,693,745

Deferred Compensation Plan	Death Benefit Plan of N.C.	State Health Plan	Retiree Health Benefit Fund	Disability Income Plan of N.C.	Sheriffs' Pension Fund	Registers of Deeds' Supplemental Pension Fund	Totals
$ —	$ 27,220	$ 1,856,309	$ 635,685	$ 79,981	$ 1,329	$ 754	$ 3,540,757
43,863	—	478,805	—	—	—	—	1,995,939
—	18,542	310,271	—	—	—	—	344,467
43,863	45,762	2,645,385	635,685	79,981	1,329	754	5,881,163
(156,150)	22,416	5,347	16,442	25,561	87	2,774	(10,955,408)
—	(1,285)	(800)	(2,461)	(1,433)	(13)	(160)	(397,986)
(156,150)	21,131	4,547	13,981	24,128	74	2,614	(11,353,394)
—	—	—	—	—	—	—	4,786
—	—	1	—	—	1	—	1,641
—	—	1	—	—	1	—	6,427
(112,287)	66,893	2,649,933	649,666	104,109	1,404	3,368	(5,465,804)
36,831	38,072	2,458,583	—	84,549	1,235	1,437	6,725,281
—	97	—	510,622	—	—	—	510,719
—	—	—	—	—	—	—	114,976
2,488	650	149,763	324	860	149	18	174,742
—	—	211	—	1	—	—	252
39,319	38,819	2,608,557	510,946	85,410	1,384	1,455	7,525,970
(151,606)	28,074	41,376	138,720	18,699	20	1,913	(12,991,774)
781,254	272,355	(140,163)	361,524	322,368	1,951	34,543	78,891,994
$ 629,648	$ 300,429	$ (98,787)	$ 500,244	$ 341,067	$ 1,971	$ 36,456	$ 65,900,220

NOTE 16: SEGMENT INFORMATION

Component Unit. The North Carolina Housing Finance Agency's Home Ownership Bond Programs and Rental Bond Programs are initially funded with revenue bond proceeds. These proceeds are used to purchase mortgage loans which provide the income along with investment earnings to repay the debt.

Condensed financial statements for the two segments of the North Carolina Housing Finance Agency as of and for the fiscal year ended June 30, 2009 are presented below (dollars in thousands).

	N.C. Housing Finance Agency	
	Home Ownership	Rental
Condensed Statement of Net Assets		
Assets:		
Current assets	$ 321,813	$ 32,753
Noncurrent assets	1,405,088	50,132
Total assets	1,726,901	82,885
Liabilities:		
Current liabilities	119,545	2,545
Noncurrent liabilities	1,399,475	29,067
Total liabilities	1,519,020	31,612
Net assets:		
Restricted	207,881	51,273
Total net assets	$ 207,881	$ 51,273
Condensed Statement of Revenues, Expenses, and Changes in Net Assets		
Operating revenues (pledged against bonds)	$ 95,484	$ 4,503
Operating expenses	(81,587)	(1,961)
Operating income	13,897	2,542
Transfers out	(1,384)	(1,174)
Change in net assets	12,513	1,368
Net assets — July 1	195,368	49,905
Net assets — June 30	$ 207,881	$ 51,273
Condensed Statement of Cash Flows		
Net cash provided (used) by:		
Operating activities	$ 111,274	$ 4,534
Noncapital financing activities	(94,267)	(2,811)
Investing activities	43,241	10,432
Net increase (decrease)	60,248	12,155
Cash and cash equivalents at July 1	135,507	18,871
Cash and cash equivalents at June 30	$ 195,755	$ 31,026

NOTE 17: PLEDGED REVENUES

Primary Government

Grant Anticipation Revenue Vehicle Bonds

The State has pledged future federal transportation revenues to repay $241.82 million of Grant Anticipation Revenue Vehicle (GARVEE) bonds payable at June 30, 2009. These bonds were issued in October 2007. Such federal transportation revenues consist of amounts derived from the National Highway System and other federal surface transportation programs pursuant to Title 23 of the United States Code. Annual principal and interest requirements on the GARVEE bonds are expected to require less than 5% of such federal transportation revenues. The North Carolina General Statute 136-18 limits the amount that can be issued by providing that the maximum debt service on all GARVEE bonds may not exceed 15% of the expected annual federal revenue and that the outstanding principal amount may not exceed the total amount of federal transportation funds authorized to the State in the prior federal fiscal year.

Proceeds from the bonds will be used to accelerate the funding of various transportation projects identified in the current State Tranportation Improvement Plan. As required by State law, the projects have been selected on factors including a broad geographical distribution across the State. The total principal and interest remaining to be paid on the bonds is $296.244 million, payable through 2019. For the current fiscal year, principal and interest paid and total federal transportation revenues were $59.33 million and $1.119 billion, respectively.

Employer Unemployment Tax Contributions

The State has pledged future unemployment tax contributions from employers to repay $728.773 million in repayable advances from the Federal Unemployment Account. The debt is currently interest free through December 31, 2010. Proceeds from the advances were used to pay unemployment benefits because of an operating deficit in the State's Unemployment Compensation Fund.

The repayable advances are payable solely from the unemployment tax contributions and these contributions will be used specifically for paying down the debt until it is settled. Meanwhile, the unemployment benefits will continue to be paid from the repayable advances.

Total revenue collected from unemployment tax contributions for the year was $1.013 billion. Prior to February 11, 2009, unemployement tax contributions were used to pay benefits. After February 11, 2009, employer tax contributions were used to pay down the principal on the repayable advances in the amount of $352.078 million.

Component Units

University of North Carolina System

The University of North Carolina System has pledged future revenues, net of specific operating expenses, to repay revenue bonds and certificates of participation as shown in the table below (dollars in thousands):

		Future Revenues Pledged		Current Year			
Purpose	Revenue Source	Amount	% of Total Revenue Source	Pledged Revenues, Net of Expenses	Principal and Interest Payments	Final Maturity Date	Bonds Payable as of 6/30/2009
Revenue Bonds		(1)					
Housing and Dining	Housing/Dining Revenues	$ 173,608	2.21% - 74.00%	$ 62,468	$ 14,899	2034	$ 117,623
Utilities	Utilities Revenues	87,678	22.00% - 30.00%	33,085	4,158	2024	59,879
Health Care Facilities	Patient Service Revenues	158,974	38.00% - 100.00%	21,264	11,165	2034	110,925
Other	Various	53,603	0.10% - 307.00%	22,866	7,228	2033	39,446
Total		$ 473,863		$ 139,683	$ 37,450		$ 327,873
Certificates of Participation							
Student Housing System	Housing Revenues	$ 39,132	71.75% - 77.00%	$ 1,972	$ 1,491	2036	$ 22,540
Banner System	Tuition/Administative Fees	3,962	60.00%	1,323	795	2014	3,520
Total		$ 43,094		$ 3,295	$ 2,286		$ 26,060

(1) The Future Revenues Pledged Amount is equivalent to the total principal and interest remaining to be paid on the associated bonds.

NOTES TO THE FINANCIAL STATEMENTS

North Carolina Housing Finance Agency

The North Carolina Housing Finance Agency (The Agency) has collateralized \$1.45 billion in mortgage loans receivable, \$160.14 million in reserves, and \$2.24 million in program funds to repay \$1.518 billion single family and multiple family bonds payable at June 30, 2009. Proceeds from the bonds issued were utilized to finance housing opportunities throughout North Carolina. The bonds are payable through 2039 and are paid down from cash collections on mortgage loans receivable, interest receivable on mortgage loans, unexpended bond proceeds, and sale of investments. The Agency expects 100% of the mortgage loans, both principal and interest to pay the principal and interest debt service on the bonds. The total principal and interest remaining to be paid on bonds is \$2.717 billion. For the current fiscal year, principal and interest paid and net available revenue on mortgage loans receivable were \$61.815 million and \$93.925 million respectively.

State Education Assistance Authority

The State Education Assistance Authority has collateralized \$3.82 billion in student loans receivable and \$106.87 million in reserves to repay \$3.994 billion bonds payable at June 30, 2009. These tax exempt and tax guaranteed student loan revenue bonds and taxable guaranteed student loan private placement bonds were issued between fiscal years 2001 to 2008. Proceeds from the bonds issued were utilized to finance student loans. The bonds are payable through 2037 and are paid down from cash collections on student loans receivable, interest earnings on loans and investments, and unexpended bond proceeds. In addition to cash collections on student loans receivable, all net available revenues are expected to be pledged to meet annual principal and interest payments on the bonds. For the current fiscal year, principal and interest paid and total net available revenues were \$353.87 million and \$400.91 million respectively. The total principal and interest remaining to be paid on the bonds is \$5.876 billion.

NOTE 18: COMPONENT UNITS — FINANCIAL INFORMATION

The financial statements for the University of North Carolina System and Community Colleges include their nongovernmental component unit foundations and similarly affiliated organizations. Financial statements for component units as of and for the fiscal year ended June 30, 2009 are presented below (dollars in thousands).

Statement of Net Assets

	The Golden LEAF, Inc.	University of North Carolina System	Community Colleges	N.C. Housing Finance Agency	State Education Assistance Authority	Other Component Units	Total
Assets							
Cash and cash equivalents	$ 614	$ 1,601,550	$ 171,810	$ 7,054	$ 52,581	$ 81,176	$ 1,914,785
Investments	555,870	872,412	44,230	—	—	213,748	1,686,260
Receivables, net	3	768,564	72,682	23,561	75,120	16,672	956,602
Due from component units	—	8,448	8,285	—	1,740	1,219	19,692
Due from primary government	—	2,442	—	53,544	6,366	5,000	67,352
Inventories	—	79,007	16,563	—	28	807	96,405
Prepaid items	83	15,921	1,633	—	—	378	18,015
Notes receivable, net	—	232,913	406	1,535,593	3,875,258	11,882	5,656,052
Investment in joint venture	—	9,399	—	—	—	—	9,399
Deferred charges	—	16,934	—	—	20,780	625	38,339
Restricted/designated cash and cash equiv	—	1,102,620	77,475	333,877	230,363	92,143	1,836,478
Restricted investments	—	2,894,379	109,279	113,692	784,967	27,477	3,929,794
Restricted due from primary government	—	31,310	74,468	—	—	—	105,778
Restricted due from component units	—	1,059	469	—	—	—	1,528
Capital assets-nondepreciable	928	1,694,489	309,433	537	—	238,536	2,243,923
Capital assets-depreciable, net	3,196	7,340,870	1,726,386	2,639	6,660	346,305	9,426,056
Total Assets	560,694	16,672,317	2,613,119	2,070,497	5,053,863	1,035,968	28,006,458
Liabilities							
Accounts payable and accrued liabilities	37,040	541,282	51,118	2,877	12,172	32,281	676,770
Medical claims payable	—	3,985	—	—	—	—	3,985
Interest payable	—	16,673	24	49,165	15,053	82	80,997
Short-term debt	15,000	174,991	—	—	—	—	189,991
Due to component units	21,220	—	—	—	—	—	21,220
Due to primary government	530	19,104	42	—	—	14,467	34,143
Unearned revenue	—	135,381	19,349	9,239	—	1,622	165,591
Advance from primary government	—	—	—	—	—	36,716	36,716
Deposits payable	—	7,526	4	3,885	—	88	11,503
Funds held for others	—	723,774	6,172	—	429,419	90	1,159,455
Long-term liabilities:							
Due within one year	16	256,721	9,571	72,775	648,427	1,825	989,335
Due in more than one year	—	3,261,305	77,760	1,429,417	3,348,969	101,945	8,219,396
Total Liabilities	73,806	5,140,742	164,040	1,567,358	4,454,040	189,116	11,589,102
Net Assets							
Invested in capital assets, net of related debt	4,124	5,787,670	2,013,582	3,176	6,660	461,298	8,276,510
Restricted for:							
Nonexpendable:							
Higher education	—	1,460,773	125,673	—	—	—	1,586,446
Expendable:							
Higher education	—	1,902,277	205,900	—	533,404	—	2,641,581
Health and human services	—	—	—	—	—	3,281	3,281
Economic development	—	—	—	491,277	—	339,998	831,275
Transportation	—	—	—	—	—	25,000	25,000
Unrestricted	482,764	2,380,855	103,924	8,686	59,759	17,275	3,053,263
Total Net Assets	$ 486,888	$ 11,531,575	$ 2,449,079	$ 503,139	$ 599,823	$ 846,852	$ 16,417,356

NOTES TO THE FINANCIAL STATEMENTS

Statement of Activities

	The Golden LEAF, Inc.	University of North Carolina System	Community Colleges	N.C. Housing Finance Agency	State Education Assistance Authority	Other Component Units	Total
Total expenses	$ 30,607	$ 8,245,139	$ 1,810,953	$ 296,266	$ 446,729	$ 254,100	$ 11,083,794
Program revenues:							
Charges for services	51	4,829,138	275,348	267,757	138,792	54,701	5,565,787
Operating grants and contributions:							
State aid - program	—	84,750	42,213	38,892	192,663	20,896	379,414
Other operating grants and contributions [1]	(141,583)	22,333	571,123	—	59,428	13,130	524,431
Capital grants and contributions:							
State capital aid	—	141,388	76,356	—	—	30,927	248,671
Other capital grants and contributions	—	58,284	136,800	—	—	20,633	215,717
Net program (expense) revenue	(172,139)	(3,109,246)	(709,113)	10,383	(55,846)	(113,813)	(4,149,774)
Non-tax general revenues:							
State aid - general	87,593	2,489,129	829,505	19,447	—	225,498	3,651,172
Miscellaneous	1	459	68	—	—	1,522	2,050
Total non-tax general revenues	87,594	2,489,588	829,573	19,447	—	227,020	3,653,222
Contributions to endowments	—	79,092	4,805	—	—	—	83,897
Change in net assets	(84,545)	(540,566)	125,265	29,830	(55,846)	113,207	(412,655)
Net assets — July 1, as restated	571,433	12,072,141	2,323,814	473,309	655,669	733,645	16,830,011
Net assets — June 30	$ 486,888	$ 11,531,575	$ 2,449,079	$ 503,139	$ 599,823	$ 846,852	$ 16,417,356

[1] The negative amount of program revenue for the Golden LEAF, Inc. was due to unrealized losses on investments.

Significant Balances and Transactions Between Component Units

	The Golden LEAF, Inc.	University of North Carolina System	Community Colleges	N.C. Housing Finance Agency	State Education Assistance Authority	Other Component Units	Total
The Golden LEAF, Inc.:							
Due from (due to) component units	$ (21,220)	$ 9,507	$ 8,754	$ —	$ 1,740	$ 1,219	$ —
Grant revenue (expense)	(9,317)	2,281	5,221	—	1,740	75	—
UNC System - grant revenue (expense)	—	(29,360)	—	—	29,360	—	—

Intra-Entity Balances — Between Primary Government and Component Units

	Due From/Restricted Due From Component Units			Due From / Restricted Due From Primary Government					
	Other Governmental Funds	Other Funds	Total	University of North Carolina System	Community Colleges	NC Housing Finance Agency	State Education Assistance Authority	Other Component Units	Total
Due To Component Units:									
General Fund	$ —	$ —	$ —	$ 2,442	$ —	$ 53,544	$ —	$ —	$ 55,986
Other Governmental Funds	—	—	—	31,310	74,468	—	6,366	5,000	117,144
Due To Primary Government:									
The Golden LEAF, Inc	530	—	530	—	—	—	—	—	—
University of North Carolina System	18,192	912	19,104	—	—	—	—	—	—
Community Colleges	—	42	42	—	—	—	—	—	—
Other Component Units	14,446	21	14,467	—	—	—	—	—	—
Total	$ 33,168	$ 975	$ 34,143	$ 33,752	$ 74,468	$ 53,544	$ 6,366	$ 5,000	$ 173,130

NOTE 19: RELATED ORGANIZATIONS

MCNC

MCNC (formerly the Microelectronics Center of North Carolina) is a legally separate non-profit corporation fostering the advancement of education, innovation and economic development throughout North Carolina by providing high quality network infrastructure and network-based services. It is managed by a Board of Directors ranging from 13 to 20 members. Six of the members are appointed by the Governor. Another six members serve ex officio as follows: four are chancellors of universities in the University of North Carolina System, a component unit of the State; one is the president of MCNC; and one is designated by the Board of Trustees of Duke University. These Governor-appointed members and ex officio members may elect up to eight other board members. Any appointed director may be removed from office by the Governor for cause. Any elected director may be removed by the Board of Directors at will.

Centennial Authority

The Centennial Authority (Authority) is a legally separate organization created by the 1995 General Assembly to study, design, plan, construct, own, promote, finance, and operate a regional facility on land owned by the State. Prior to this legislation, the General Assembly authorized the construction by North Carolina State University (NCSU) of a facility known as the Entertainment and Sports Arena (ESA). In fiscal year 2003, a naming rights agreement was executed to change the name of the ESA to the RBC Center. As a result of this agreement, NCSU will receive $13.18 million over a 10-year period beginning in fiscal year 2003. The RBC Center houses entertainment shows and is home to two sports teams, the National Hockey League's Carolina Hurricanes and NCSU men's basketball. The Authority is governed by a 21 member board comprised of 10 members appointed by the General Assembly, four members appointed by the Wake County Board of Commissioners, four members appointed by the Raleigh City Council, two members appointed jointly by the mayors of all the cities in Wake County, and the Chancellor of NCSU (or the Chancellor's designee). A member may be removed by the appointing authority for cause.

The Authority entered into a ground lease with the State of North Carolina to lease land for the RBC Center for a period of 99 years at an annual rent of $1. NCSU entered into a use agreement with the Authority. Both parties agreed that NCSU shall be the primary and preferred user of all areas of the RBC Center. NCSU is required to pay the greater of 10% of gross ticket revenues or $46 thousand for each men's and $20 thousand for each women's basketball game to compensate the Authority for facility rental and operating expenses. Rent and expense payments for miscellaneous events will be negotiated on an event by event basis based on the availability of the RBC Center and the anticipated attendance. In fiscal year 2008, the University entered a capital improvement plan agreement with the Authority to pay $6 million in quarterly installments over the next 15 years.

North Carolina Capital Facilities Finance Agency

The North Carolina Capital Facilities Finance Agency provides the benefits of tax-exempt financing to non-profit institutions providing elementary and secondary education, private institutions of higher education, and various other entities for special purpose projects serving a public interest (see Note 21). The agency is governed by a seven member board comprised of two members appointed by the General Assembly, three members appointed by the Governor, and the State Treasurer and the State Auditor, both of whom serve ex officio.

NOTE 20: RELATED PARTY TRANSACTIONS

Primary Government

Supplemental Retirement Income Plan of North Carolina

The Plan has a third party administration contract with Prudential Retirement Services, which is a subsidiary of Prudential. The Plan also has an investment management agreement and synthetic GIC contract (Guaranteed Investment Contract) with Prudential. Prudential also provides the Prudential Stable Value Fund as an investment option for participants. The Plan recognized approximately $7 million in expenses related to Prudential for the year ended December 31, 2008. The expenses relate to loan initiation fees and investment management fees. Certain other administrative expenses of the Plan are paid by Prudential Retirement Services. In addition, the Plan has a securities lending contract with State Street Bank and Trust Company (State Street), a custodian of Plan assets, and receives securities lending income related to this arrangement. The pooled fund held as collateral under securities lending transactions is a State Street fund.

North Carolina Public Employee Deferred Compensation Plan

Under the terms of an agreement effective January 1, 2004, the Plan's Board of Trustees appointed Great-West Life & Annuity Insurance Company (Great-West), as the Plan's third-party administrator for a term of four years. The term was extended by the Board of Trustees through December 17, 2008. As compensation for services performed as the third party administrator, Great-West receives an administration fee (ranging from 0.30% to 0.31% for 2008) based on total assets of the Plan excluding annuity payout contracts. The Plan recognized $1.86 million in expenses related to Great-West for the year ended December 31, 2008.

Great-West manages an investment fund exclusively for the benefit of the North Carolina Public Employee Deferred Compensation Plan. The fund includes a repurchase agreement, bonds, the Prudential Trust Company Collective Trust, and the Great West Daily Guaranteed Interest Fund.

The portion of annuity payout contract assets attributable to contracts with Great-West at December 31, 2008 was $17.6 million.

Effective December 18, 2008, the Plan's Board of Trustees appointed Prudential Insurance Company of America ("Prudential") as the Plan's third party administrator for a term of five years. As compensation for services performed as the third party administrator, Prudential receives an administration fee (0.105% for 2008) based on total assets of the Plan excluding annuity payout contracts. The Plan recognized $2.7 thousand in expenses related to Prudential for the year ended December 31, 2008.

Component Units

University of North Carolina System and Community College Foundations

The University of North Carolina (UNC) System and community colleges have separately incorporated not-for-profit foundations that are associated with constituent institutions of the UNC System or individual colleges. These organizations serve as a fundraising arm of the respective institutions through which individuals, corporations, and other organizations support institution programs by providing scholarships, fellowships, faculty salary supplements, and unrestricted funds to specific departments and the institution's overall academic environment. These affiliated organizations are not included as component units since the economic resources received or held by an individual organization are not significant to the primary government. Therefore, the financial statements of the UNC System and community colleges do not include the assets, liabilities, net assets, or operational transactions of these foundations, except for support from each organization to constituent institutions or colleges. For the fiscal year ended June 30, 2009, this support approximated $56.02 million for the UNC System and $629 thousand for community colleges.

NOTE 21: COMMITMENTS AND CONTINGENCIES

A. No Commitment Debt

The State, by action of the General Assembly, created the North Carolina Medical Care Commission which is authorized to issue tax-exempt bonds and notes to finance construction and equipment projects for nonprofit and public hospitals, nursing homes, continuing care facilities for the elderly and related facilities. The bonds are not an indebtedness of the State and, accordingly, are not reflected in the accompanying financial statements. Each issue is payable solely from the revenues of the facility financed by that issue and any other credit support provided. Therefore, each issue is separately secured and is separate and independent from all other issues as to source of payment and security. The indebtedness of each entity is serviced and administered by a trustee independent of the State. Maturing serially to calendar year 2041, the outstanding principal of such bonds and notes as of June 30, 2009, was $6.7 billion with interest rates varying from 0.2% to 8%.

The North Carolina Capital Facilities Finance Agency is authorized by the State to issue tax-exempt bonds and notes to finance industrial and manufacturing facilities, pollution control facilities for industry (in connection with manufacturing) where there is a favorable impact on employment or pollution control commensurate with the size and cost of the facilities and to finance facilities and structures at private nonprofit colleges and universities, and institutions providing kindergarten, elementary and secondary education, and various other nonprofit entities. The Agency's authority to issue bonds and notes also includes financing private sector capital improvements for activities that constitute a public purpose. The bonds are not an indebtedness of the State and, accordingly, are not reflected in the accompanying financial statements. Each issue is payable solely from the revenues of the facility financed by that issue and any other credit support provided. Therefore, each issue is separately secured and is separate and independent from all other issues as to source of payment and security. The indebtedness of each issue is serviced and administered by a trustee independent of the State. Maturing serially to calendar year 2045, the outstanding principal of such bonds and notes as of June 30, 2009, was $2.9 billion with fixed interest rates varying from 2.5% to 7.1% and variable interest rates which can be reset weekly.

B. Litigation

***Hoke County, et al. v. State of North Carolina and State Board of Education* — Right to a Sound Basic Education (formerly Leandro).** In 1994, students and boards of education in five counties in the State filed suit in Superior Court requesting a declaration that the public education system of North Carolina, including its system of funding, violates the state Constitution by failing to provide adequate or substantially equal educational opportunities, by denying due process of law, and by violating various statutes relating to public education. Five other school boards and students therein intervened, alleging claims for relief on the basis of the high proportion of at-risk and high-cost students in their counties' systems.

The suit is similar to a number of suits in other states, some of which resulted in holdings that the respective systems of public education funding were unconstitutional under the applicable state law. The State filed a motion to dismiss, which was denied. On appeal, the North Carolina Supreme Court upheld the present funding system against the claim that it unlawfully discriminated against low wealth counties, but remanded the case for trial on the claim for relief based on the Court's conclusion that the Constitution guarantees every child the opportunity to obtain a sound basic education. Trial on the claim of one plaintiff-county was held in the fall of 1999. On October 26, 2000 the trial court, in Section Two of a projected three-part ruling, concluded that at-risk children in North Carolina are constitutionally entitled to such pre-kindergarten educational programs as may be necessary to prepare them for higher levels of education and the "sound basic education" mandated by the Supreme Court. On March 26, 2001, the Court issued Section Three of the three-part ruling, in which the judge ordered all parties to investigate certain school systems to determine why they are succeeding without additional funding. The State filed a Notice of Appeal to the Court of Appeals, which resulted in the Court's decision to re-open the trial and call additional witnesses. That proceeding took place in the fall of 2001. On April 4, 2002, the Court entered Section Four of the ruling, ordering the State to take such actions as may be necessary to remedy the constitutional deficiency for those children who are not being provided with access to a sound basic education and to report to the Court at 90-day intervals remedial actions being implemented. On July 30, 2004, the North Carolina Supreme Court affirmed the majority of the trial court's orders, thereby directing the executive and legislative branches to take corrective action necessary to ensure that every child has the opportunity to obtain a sound, basic education. The Supreme Court did agree with the State that the trial court exceeded its authority in ordering pre-kindergarten programs for at-risk children. The State is now undertaking measures to respond to the trial court's directives. The magnitude of state resources which may ultimately be required cannot be determined at this time; however, the total cost could exceed $100 million.

***N.C. School Boards Association, et al. v. Richard H. Moore, State Treasurer, et al.* — Use of Administration Payments.** On December 14, 1998, plaintiffs, including county school boards of Wake, Durham, Johnston, Buncombe, Edgecombe and Lenoir Counties, filed suit in Superior Court requesting a declaration that certain payments to state administrative agencies must be distributed to the public schools on the theory that such amounts are civil penalties which under the North Carolina Constitution must be paid to the schools.

NOTES TO THE FINANCIAL STATEMENTS

On December 14, 2001, the Superior Court of Wake County granted summary judgment in favor of the plaintiffs on all issues, concluding that the funds in dispute are civil fines or penalties required by Article IX, Section 7 of the Constitution to be remitted to the public schools in the county where the violation occurred. The court further determined a three-year statute of limitations to be applicable, making the order retroactive to December 1995. This case was argued in the Court of Appeals in February, 2003. The North Carolina Court of Appeals rendered a decision in September 2003 substantially favorable to the State. On July 1, 2005, the Supreme Court reversed the Court of Appeals in part, concluding that a majority of the funds in dispute are civil penalties required to be paid into the Civil Penalty and Forfeiture Fund for the benefit of public schools. The case was remanded to Superior Court and on August 8, 2008 the Superior Court entered judgment in the amount of $749.886 million. Of the $749.886 million, $731.703 million is included in the long-term liabilities footnote (Note 7). The remaining balance, $18.183 million has been escrowed by the University of North Carolina (UNC) System per the Session Law 2009-451, Section 5.1.(b). The UNC System has also booked this as a current liability. The Court acknowledged, however, that the judicial branch did not have the power to force the State to satisfy the judgment and that and decision to do so would have to come from the legislature.

Southeast Compact Commission — Disposal of Low-level Radioactive Waste. North Carolina and seven other southeastern states created the Southeast Interstate Low-level Radioactive Waste Management Compact (Compact) to plan and develop a site for the disposal of low-level radioactive waste generated in the member states. North Carolina was assigned responsibility for development of the first disposal site, with costs to be distributed equitably among the Compact members. In 1997, the Compact Commission discontinued funding of the development of the North Carolina site, alleging that the State was not actively pursuing the permitting and development of the proposed site. North Carolina withdrew from the Compact in 1999. The Compact subsequently asked the United States Supreme Court to accept its Complaint against North Carolina demanding the repayment, with interest, of $80 million of Compact payments expended on the permitting of the site, plus $10 million of future lost income, interest and attorney fees. The Supreme Court denied this motion in August 2001. On August 5, 2002 the Compact, with the addition of four member states as plaintiffs, filed a new motion requesting the United States Supreme Court to accept the claim under its original jurisdiction. On June 16, 2003, the Court accepted jurisdiction of the case and the State filed an answer and motion to dismiss on August 21, 2003. On November 17, 2003, the U.S. Supreme Court appointed a Special Master with authority to receive evidence and make recommended rulings on the issues presented by the case. On April 2, 2009, the Special Master filed his "Preliminary Report" and his "Second Report" recommending that the Court dismiss the claims seeking enforcement of the monetary sanction imposed against North Carolina by the Compact Commission as well as the entry of partial summary judgment finding that North Carolina did not breach the Compact when it withdrew. Briefing by the parties on Exceptions to the Reports of the Special Master concluded on September 9, 2009. The case is scheduled for oral argument before the United States Supreme Court on January 13, 2010.

***State Employees Association of North Carolina (SEANC) v. State; Stone v. State* – Diversion of Employer's Retirement System Contribution.** On May 22, 2001, SEANC filed an action in Wake County Superior Court demanding repayment of approximately $129 million in employer retirement contributions to the Retirement Systems. The Governor withheld, and subsequently used, the withheld funds under his constitutional authority to balance the state budget. The trial court dismissed the action on May 23, 2001, and the North Carolina Court of Appeals affirmed this dismissal on December 3, 2002. The Supreme Court, on June 13, 2003, reversed the Court of Appeals on issues related to class standing and remanded with instructions to consider procedural issues raised but not addressed by the Court of Appeals. The Court of Appeals remanded the case to the Superior Court of Wake County without opinion and without considering any remaining issues.

In June 2002, the *Stone* case was filed in Wake County Superior Court on behalf of individual state employees and retirees seeking repayment of the withheld employer contribution and a prohibition against future diversions. A class comprised of all members of the Retirement System has been certified and the case is currently proceeding through class notification and toward trial. On September 6, 2006, the trial court issued an interlocutory order in response to cross-motions for summary judgment. The court's order found the diversion of funds to be in violation of the Constitution, but did not direct any repayment of funds, if necessary after appeal of the constitutional issues. On August 5, 2008, the Court of Appeals affirmed the Superior Court order. Both sides gave notice of appeal and filed petitions for discretionary review with the North Carolina Supreme Court. On June 17, 2009, the Supreme Court dismissed the appeals and denied the petitions for discretionary review.

The case now returns to the Superior Court for consideration of damages. Because the General Assembly has repaid the principal amount withheld from the Retirement System, consideration will focus on lost interest and earnings, if any. A new judge will need to be appointed to hear the case, as the judge previously assigned to the case is now employed by the North Carolina Department of Transportation.

***Goldston v. State of North Carolina* – Highway Trust Fund Transfers.** On November 14, 2002, a lawsuit was filed in Wake County Superior Court demanding that $80 million transferred by the Governor from the Highway Trust Fund to the General Fund for purposes of balancing the state budget be returned to the Highway Trust Fund. The suit further alleges that actions of the General Assembly regarding the transfer of funds from the Highway Trust Fund to the General Fund constitute a borrowing by the State of Highway Trust Fund cash surplus and are unlawful and unconstitutional. The lawsuit requests a declaration that taxes collected for purposes of Highway Trust Fund expenditures cannot be used for other purposes. Summary Judgment was granted in favor of the State on all issues and Plaintiff has filed a notice of appeal. On September 20, 2005, the North Carolina Court of Appeals upheld the trial court's order. The plaintiff filed a petition for discretionary review with the North Carolina Supreme Court, and the Court agreed on March 2, 2006 to review a portion of the Court of Appeals' decision and oral argument was heard on October 16, 2006. In an opinion filed December 15, 2006, the Supreme Court reversed the Court of Appeals, concluding that plaintiffs have standing to pursue their claims. On remand to Wake County Superior Court, Judge John ruled in favor of the State on both the standing argument and the merits of the case. Plaintiff's appeal was argued in the Court of Appeals on January 28, 2009. In an opinion filed September 15, 2009 the Court of Appeals held that although the General Assembly had the authority to transfer $125 million from the Highway Trust Fund to the General Fund, the Governor exceeded his constitutional authority in transferring $80 million from the Highway Trust Fund to the General Fund. The State has appealed this decision.

***Wal-Mart Stores East, Inc. v. Tolson and Sam's East, Inc. v. Tolson* — Refund of Corporate Income Tax. *Wal-Mart Stores East, Inc. v. Hinton and Sam's East, Inc. v. Hinton* — Refund of Corporate Income Tax**. On March 17, 2006, the Plaintiffs filed complaints seeking a refund of over $33.5 million in corporate income taxes in Wake County Superior Court. Plaintiffs challenged the Secretary's authority to require them to file a "combined return" on various statutory and constitutional grounds. The actions were assigned to Judge Clarence E. Horton, Jr. to hear as exceptional cases. Judge Horton granted summary judgment in favor of the State on December 31, 2007. Plaintiff appealed both actions to the Court of Appeals. On May 19, 2009, the Court of Appeals affirmed Judge Horton's decision and rejected all of Wal-Mart's arguments. Plaintiffs' Petition for Discretionary Review and Notice of Appeal is currently pending in the North Carolina Supreme Court.

***State of North Carolina v. Philip Morris, Inc., et al., 98 CVS 14377* — Master Settlement Agreement (MSA) Payments.** On April 20, 2006, the State of North Carolina filed a Motion for Declaratory Order in the North Carolina Business Court against defendants Philip Morris, Inc., R. J. Reynolds Tobacco Company, and Lorillard Tobacco Company. The Motion is seeking a declaration that (1) in 2003, North Carolina continuously had a Qualifying Statute in full force and effect and "diligently enforced" its provisions throughout that year in accordance with the MSA; (2) North Carolina is not subject to a Non-Participating Manufacturers' Adjustment for 2003; and (3) defendants are obligated not to withhold or pay into a disputed payments account any payments due, or seek any offset of any payments made, on the basis that North Carolina is subject to a Non-Participating Manufacturers' Adjustment for 2003. If the State is unable to ultimately prevail in the diligent enforcement litigation, the State may be unable to recover a portion of this year's MSA payment. On December 4, 2006, Judge Tennille allowed the defendant's motion to compel arbitration of these issues. The Court of Appeals upheld the Order and on March 19, 2009, the State's Petition to the North Carolina Supreme Court was denied. The State will therefore now be required to participate in a national arbitration process with the tobacco companies and all other MSA states.

Other Litigation. The State is involved in numerous other claims and legal proceedings, many of which are normal for governmental operations. A review of the status of outstanding lawsuits involving the State by the North Carolina Attorney General did not disclose other proceedings that are expected to have a material adverse effect on the financial position of the State.

C. Federal Grants

The State receives significant financial assistance from the Federal Government in the form of grants and entitlements, which are generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resources for eligible purposes. Under the terms of the grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures.

Any disallowance as a result of questioned costs could become a liability of the State. As of June 30, 2009, the State is unable to estimate what liabilities may result from such audits except for the $15 million settlement balance with the U.S. Department of Justice and the U.S. Department of Health and Human Services which is included in the long-term liabilities footnote (Note 7).

In addition, a Financial Management Review of N.C. Medicaid payments for Community Support Services was conducted for the quarter ended December 31, 2007. As a result of this review, the Centers for Medicare and Medicaid Services has estimated a liability of $27.38 million in federal financial participation to be recouped from the Division of Medical Assistance.

D. Highway Construction

The State may be liable for approximately $85.13 million to contractors for highway construction claims that the State has contested. The State may also be liable for an additional $5.11 million in contested rights-of-way acquisition costs to property owners in condemnation proceedings. These costs have not been included in project-to-date costs. Also, the State is contingently liable for outstanding contractors' claims in the amount of $45.59 million.

E. USDA-Donated Commodities

The State has custodial responsibility for $3 million of U.S. Department of Agriculture donated food commodities for which the State is liable in the event of loss.

F. Construction and Other Commitments

At June 30, 2009, the State had commitments of $1.38 billion for construction of highway infrastructure. Of this amount, $1.19 billion relates to the Highway Fund, and $187.22 million relates to the Highway Trust Fund. The other commitments for construction and improvements of state government facilities totaled $761.66 million (including $491.27 million for the Department of Environment and Natural Resources and $152.01 million for the Department of Correction).

At June 30, 2009, the University of North Carolina System (component unit) had outstanding construction commitments of $575.9 million (including $146.12 million for University of North Carolina – Chapel Hill, $58.48 million for North Carolina State University, $53.26 million for North Carolina Agricultural and Technical State University, $50.04 million for UNC Health Care System, $44 million for University of North Carolina – Greensboro, and $42.63 million for East Carolina University).

At June 30, 2009, community colleges (component units) had outstanding construction commitments of $115.27 million (including $26.62 million for Central Piedmont Community College, $12.05 million for Cape Fear Community College, $7.9 million for Forsyth Technical Community College, $7.22 million for Gaston College, $6.57 million for Sandhills Community College, $5.9 million for Johnston Community College and $5.85 million for Pitt Community College).

The State Treasurer has entered into contracts with external fund managers of the Real Estate Investment and Alternative Investment portfolios, where the State Treasurer agrees to commit capital to these investments. The portfolios are part of the State Treasurer's Investment Pool as described in section A of Note 3. As of June 30, 2009, the State Treasurer has $2.1 billion committed for real estate investments and $3.65 billion for alternative investments.

The University of North Carolina at Chapel Hill's Investment Fund has entered into agreements with limited partnerships, where the fund agrees to commit capital to these investments. As of June 30, 2009, the Investment Fund has $495 million committed capital not yet called.

At June 30, 2009, The Golden LEAF (Long-term Economic Advancement Foundation), Inc. (component unit) had outstanding commitments of $69.85 million to invest in several private equity funds.

G. Tobacco Settlement

In 1998, North Carolina, along with 45 other states, signed the Master Settlement Agreement (MSA) with the nation's largest tobacco companies to settle existing and potential claims of the states for damages arising from the use of the companies' tobacco products. Under the MSA, the tobacco companies are required to adhere to a variety of marketing, advertising, lobbying, and youth access restrictions, support smoking cessation and prevention programs, and provide payments to the states in perpetuity. The amount that North Carolina will actually receive from this settlement remains uncertain, but projections are that the State will receive approximately $4.6 billion through the year 2025. In the early years of MSA, participating states received initial payments that were distinct from annual payments. The initial payments were made for five years: 1998 and 2000 through 2003. The annual payments began in 2000 and will continue indefinitely. However, these payments are subject to a number of adjustments including an inflation adjustment and a volume adjustment. Some adjustments (e.g., inflation) should result in an increase in the payments while others (e.g., domestic cigarette sales volume) may decrease the payments. Also, future payments may be impacted by continuing and potential litigation against the tobacco industry and changes in the financial condition of the tobacco companies. At year-end, the State recognizes a receivable and revenue for the tobacco settlement based on the underlying domestic shipment of cigarettes. This accrual estimate is based on the projected payment schedule in the MSA adjusted for historical payment trends.

In 1999, the State approved legislation to implement the terms of the MSA in North Carolina. The State created a nonprofit corporation, The Golden Leaf, Inc. (Foundation), to distribute 50% of the settlement funds received by the State of North Carolina. The legislation directed that these funds be used for the purposes of providing economic impact assistance to economically affected or tobacco-dependent regions of North Carolina. However, the Foundation's share of the payments may be diverted by the North Carolina General Assembly prior to the funds being received by the North Carolina State Specific Account. The Foundation is reported as a discretely presented component unit.

In 2000, the State enacted legislation that established the Health and Wellness Trust Fund and the Tobacco Trust Fund and created commissions charged with managing these funds. Each fund will receive 25% of the tobacco settlement payments. The purpose of the Health and Wellness Trust Fund is to finance programs and initiatives to improve the health and wellness of the people of North Carolina. An 18 member Health and Wellness Trust Fund Commission will administer the Fund. The primary purpose of the Tobacco Trust Fund is to compensate the tobacco-related segment of North Carolina's economy for the economic hardship it is expected to experience as a result of the MSA. An 18 member Tobacco Trust Fund Commission will administer the Fund. The Health and Wellness Trust Fund and Tobacco Trust Fund are reported as special revenue funds. In fiscal year 2008-2009, Session Law

2008-107, Section 2.2.(e) and Section 2.2.(f) directed the Tobacco Trust Fund and the Health and Wellness Trust Fund to transfer $5 million each to the General Fund in order to support appropriations. In the same fiscal year per the direction of the Governor's Executive Order No. 6, the Tobacco Trust Fund and the Health and Wellness Trust Fund transferred $19.4 million each to the General Fund to help cover the budget shortfall.

H. Other Contingencies

As of June 30, 2009, the North Carolina Global TransPark Authority (Authority), a component unit of the State, had a loan outstanding including accrued interest payable totaling $36.187 million to the Escheat Fund (special revenue fund). The loan is due on October 1, 2011. As of October 15, 2009, the investment balance and the current amount of operating cash held by the Authority is not sufficient to pay the balance due to the Escheat Fund and as such, substantial doubt about the Authority's ability to continue as a going concern exists. In addition, if the Authority declares bankruptcy, funding received to date from the Federal Aviation Administration (FAA) may be required to be paid back. As of June 30, 2009, the Authority has an amortized commitment of approximately $17.3 million from the FAA.

NOTE 22: CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

CHANGES RESULTING FROM ADOPTION OF NEW ACCOUNTING PRINCIPLES

For the fiscal year ended June 30, 2009, the State implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

- GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations.*
- GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments.*

GASB Statement No. 49 addresses the accounting and financial reporting standards for pollution remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities. Once any one of five specified obligating events occurs, a government is required to estimate the components of expected pollution remediation outlays and determine whether outlays for those components should be accrued as a liability or, if appropriate, capitalized when goods and services are acquired. The pollution remediation liability should be recorded at the current value and estimated using the expected cash flow technique.

GASB Statement No. 52 establishes standards for reporting land and other real estate held as investments by endowments. It amends GASB Statement No. 31 by requiring endowments to report their land and other real estate investments at fair value instead of at cost. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value. This pronouncement impacts the University of North Carolina System and community colleges (discretely presented component units).

The following pronouncements became effective for the fiscal year ended June 30, 2009 but either did not change current practice (i.e., GASB Statements Nos. 55 and 56) or did not apply under current conditions (GASB Technical Bulletin No. 2008-1):

- GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.*
- GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards.*
- GASB Technical Bulletin No. 2008-1, *Determining the Annual Required Contribution Adjustment for Postemployment Benefits.*

CHANGE IN ACCOUNTING POLICY

During the fiscal year ended June 30, 2009, the State changed its method of accounting for inventories of governmental funds from the purchases method to the consumption method. Under the consumption method, inventories of governmental funds are recognized as expenditures when consumed rather than when purchased. The State made this change to eliminate a reconciling item between the fund and government-wide financial statements and to account for all inventories in the financial statements using the same method. This change had no impact on beginning fund balance.

NOTE 23: FUND EQUITY RECLASSIFICATIONS AND RESTATEMENTS

The following table reconciles the beginning fund equity as previously reported to the beginning fund equity as restated (dollars in thousands). The amounts in the "Change in Capital Assets Valuation" column represents adjustments to beginning balances of accumulated depreciation on capital assets previously reported as fully depreciated that remain in use. The adjustments in the "Fund Reclassifications" column result primarily from reclassifications of residual balances from the N.C. Infrastructure Finance Corporation capital projects fund to the N.C. Infrastructure Finance Corporation special revenue fund. The amounts in the "Other Adjustments" column include 1) government-wide adjustments to long-term liabilities for the implementation of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, 2) fiduciary fund adjustments to include the Public Hospitals Investment Account with the Investment Trust Fund, 3) a change in reporting entity to include the Rural Economic Development Center, Inc. as a discretely presented component unit, and 4) correction of errors related to prior periods.

	July 1, 2008 Fund Equity as Previously Reported	Change in Capital Assets Valuation	Fund Reclassifications	Other Adjustments	July 1, 2008 Fund Equity as Restated
Primary Government					
Major Governmental Funds:					
General Fund	$ 1,679,078	$ —	$ 2	$ (941)	$ 1,678,139
Highway Fund	891,747	—	—	84,138	975,885
Highway Trust Fund	(74,615)	—	—	(84,138)	(158,753)
Other Governmental Funds:					
Special Revenue Funds	2,684,715	—	3,595	(5,352)	2,682,958
Capital Projects Funds	413,885	—	(3,597)	—	410,288
Permanent Funds	73,125	—	—	—	73,125
Total Governmental Funds	5,667,935	—	—	(6,293)	5,661,642
Internal Service Funds	234,979	—	—	(497)	234,482
Government-wide adjustments:					
Capital assets	32,506,327	—	—	53,069	32,559,396
Unavailable deferred revenues	209,085	—	—	—	209,085
Long-term liabilities	(8,566,690)	—	—	(6,374)	(8,573,064)
Accrued interest payable	(84,248)	—	—	(4,467)	(88,715)
Pension assets	3,527	—	—	—	3,527
Total Government-wide adjustments	24,068,001	—	—	42,228	24,110,229
Total Governmental Activities	$ 29,970,915	$ —	$ —	$ 35,438	$ 30,006,353
Business-type Activities - Enterprise Funds:					
Unemployment Compensation Fund	$ 847,690	$ —	$ —	$ —	$ 847,690
EPA Revolving Loan Fund	922,867	—	—	—	922,867
Other enterprise funds	126,212	—	—	(469)	125,743
Total Business-type Activities - Enterprise Funds	$ 1,896,769	$ —	$ —	$ (469)	$ 1,896,300
Fiduciary Funds					
Pension and Other Employee Benefit Trust Funds	$ 78,888,902	$ —	$ —	$ 3,092	$ 78,891,994
Investment Trust Fund	464,491	—	—	59,327	523,818
Private Purpose Trust Funds	1,071,894	—	—	—	1,071,894
Component Units					
The Golden LEAF, Inc.	$ 571,433	$ —	$ —	$ —	$ 571,433
University of North Carolina System	12,036,794	23,913	—	11,434	12,072,141
Community Colleges	2,311,256	12,194	—	364	2,323,814
NC Housing Finance Agency	473,309	—	—	—	473,309
State Education Assistance Authority	655,669	—	—	—	655,669
Other component units	532,866	40	—	200,739	733,645
Total Component Units	$ 16,581,327	$ 36,147	$ —	$ 212,537	$ 16,830,011

NOTE 24: SUBSEQUENT EVENTS

Primary Government

General Obligation Refunding Bonds

On October 20, 2009 the State sold $371.92 million of General Obligation Refunding Bonds, Series 2009A. The bonds are dated October 20, 2009, and will bear interest from that date. Interest on the bonds will be payable semiannually on each March 1 and September 1, commencing March 1, 2010. The bonds will mature from March 2010 to 2020 and were issued at coupon rates ranging from 3.5% to 5.0%. The bonds are not subject to redemption prior to maturity. The bonds were issued to provide funds for refunding all or a portion of the State's outstanding Public School Building Bonds, Series 1999, Public Improvement Bonds, Series 2001A, General Obligation Highway Bonds, Series 2003, General Obligation Highway Bonds, Series 2004 and General Obligation Higher Education Bonds, Series 2006A.

Grant Anticipation Revenue Vehicle Bonds

On August 5, 2009, the State issued Grant Anticipation Revenue Vehicle Bonds of $242.52 million, at an average rate of 3.22%, maturing on March 3, 2021, with payments semiannually on each March 1 and September 1. Proceeds will be used to accelerate the funding of various transportation projects identified in the current State Transportation Improvement Plan. This debt is backed by future federal transportation revenues. Annual principal and interest requirements on the bonds are expected to require less than 5 % of such federal transportation revenues.

North Carolina Turnpike Authority (NCTA)

The North Carolina Turnpike Authority (NCTA) was officially incorporated into the North Carolina Department of Transportation effective July 1, 2009, per Session Law 2009-343, House Bill 1617.

The NCTA sold State Annual Appropriation Revenue Bonds, Series 2009B of $352.675 million on July 29, 2009. Principal and interest are payable semiannually on each January 1 and July 1, commencing January 1, 2010. Included in this sale were serial and term bonds with the following terms:

- Serial bonds of $40.31 million, with interest rates ranging from 4.8% to 5.2%, maturing January 1, 2017 to January 1, 2021;
- Term bonds of $50.32 million, at an interest rate of 6%, due January 1, 2025;
- Term bonds of $262.045 million, at an interest rate of 6.7%, due January 1, 2039.

The NCTA also sold Triangle Expressway System Revenue Bonds, Series 2009A and Series 2009B of $234.91 million and $35.17 million, respectively, on July 29, 2009. For the 2009A Bonds, principal and interest are payable semiannually on each January 1 and July 1, commencing January 1, 2010. The 2009A Bonds include term bonds and current interest serial bonds with the following terms:

- Current interest serial bonds of $57.27 million, with interest rates ranging from 4.5% to 5.375%, maturing January 1, 2019 to January 1, 2026;
- Term bonds of $60.315 million, at an interest rate of 5.5%, due January 1, 2029;
- Term bonds of $117.325 million, at an interest rate of 5.75%, due January 1, 2039.

The 2009B Bonds of $35.17 million mature on January 1, 2038. Interest payments will not be paid currently, but will be paid upon the maturity.

On July 1, 2009, the NCTA also executed, with the United States Department of Transportation through their Transportation Infrastructure Finance and Innovation Act (TIFIA) program, a $386.66 million loan, at 4.25%, with a 35 year term, maturing on July 1, 2047. Principal and interest payments are due semiannually each January 1 and June 1.

As of July 20, 2009, the NCTA also executed contracts for the construction of the Triangle Expressway totaling $577.41 million, as well as began the negotiations of critical path right – of-way in the construction corridor.

Component Units

East Carolina University – UNC System Pool Revenue Bonds, Series 2009A

On July 9, 2009, East Carolina University issued $45.12 million of Pool Revenue Bonds, Series 2009A, with interest rates ranging from 3% to 5.25%, maturing on October 1, 2034. Payments will occur semiannually on each October 1 and April 1. The bond proceeds were used to renovate and construct dining facilities, renovate and furnish a residence hall, and construct a softball field and complex. The bond proceeds were also used to advance refund the East Carolina University Housing and Dining Facilities System Revenue Bonds, Series 1998.

North Carolina Central University - UNC System Pool Revenue Bonds, Series 2009C

On July 9, 2009, North Carolina Central University participated in the Fall 2009 Bond Pool to finance the construction of a new dormitory, parking deck, and renovate the Walker Athletic Complex. The amount of bonds issued was $60.68 million, with interest rates ranging from 3% to 5.5%, maturing on April 1, 2034. Payments will be made semiannually on each October 1 and April 1.

University of North Carolina at Chapel Hill Foundation, Inc. and Chapel Hill Foundation Real Estate Holdings, Inc. - Promissory Note to Fund the Acquisition of Granville Towers and University Square Properties

On July 1, 2009, the University of North Carolina at Chapel Hill Foundation, Inc. and Chapel Hill Foundation Real Estate Holdings, Inc. signed a promissory note with Bank of America, N.A., for $45.75 million to purchase University Square and Granville Towers. The term of the promissory note is three years. Interest is based on the BBA LIBOR daily floating rate plus 110 basis points. Interest payments are made quarterly with the first payment due October 1, 2009, maturing July 1, 2012. Principal will be paid in full upon maturity.

These properties, formerly privately owned, consist of student residence halls, leased retail space, leased office space, and surface parking lots and are located in close proximity to the University campus in downtown Chapel Hill.

State Education Assistance Authority - Revolving credit facility

The State Education Assistance Authority (the Authority) is currently in the process of considering all financing and refinancing options available to it during these difficult times in the credit markets. This includes, and is not limited to, the Authority's considering all strategies to diversify its outstanding debt obligations.

Expected loan volume for the 2009-2010 academic year will be financed through the Loan Participation Purchase Program of the United States Department of Education (The Department). The Loan Participation Purchase Program is authorized by the "Ensuring Continued Access to Student Loans Act of 2008" (Pub.Law 110-227). Under the Loan Participation Purchase Program, the Department of Education purchases "participation interests" in Federal Family Education Loan (FFEL) Program loans made during the academic year. In general, the Authority as the "Sponsor" transfers title to the loans to an unrelated entity called the "Custodian". Upon transfer, the loans are placed into a "participation facility" under the control of the Custodian. In exchange for that transfer the Custodian sells, on behalf of the Sponsor, participation interests in the loans to the Department. The Department buys those participation interests by providing the Custodian with funds equal to the disbursed amount of the loans. The Custodian then provides those funds to the Sponsor. Therefore, liquidity is provided to the Authority for the FFEL Program loans.

As the sale of the participation interests occurs subsequent to the requests for funds to support the FFEL Program loans, the Authority entered into a Loan & Security Agreement with the RBC Bank (USA) on August 3, 2009 for a revolving loan facility up to $50 million. RBC Bank (USA) agrees to make advances to the Authority which are repaid following the receipt of funds from the United States Department of Education under the Loan Participation Purchase Program. The Authority is subject to various fees related to this revolving credit facility.

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REQUIRED SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF FUNDING PROGRESS
ALL DEFINED BENEFIT PENSION TRUST FUNDS

June 30, 2009

(Expressed in Thousands)

Retirement System	Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a) NOTE 1	Funded Ratio (a) / (b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
Teachers' and State Employees'	12-31-08	$ 55,127,658	$ 55,518,745	$ 391,087	99.3%	$ 13,267,554	3.0%
	12-31-07	55,283,120	52,815,089	(2,468,031)	104.7%	12,701,017	(19.4)%
	12-31-06	52,420,808	49,391,907	(3,028,901)	106.1%	11,711,386	(25.9)%
	12-31-05	49,670,182	46,624,668	(3,045,514)	106.5%	10,990,239	(27.7)%
	12-31-04	47,383,509	43,827,854	(3,555,655)	108.1%	10,366,137	(34.3)%
	12-31-03	45,117,508	41,733,701	(3,383,807)	108.1%	10,082,153	(33.6)%
Consolidated Judicial	12-31-08	$ 433,553	$ 441,933	$ 8,380	98.1%	$ 65,083	12.9%
	12-31-07	430,356	418,137	(12,219)	102.9%	61,338	(19.9)%
	12-31-06	406,015	378,490	(27,525)	107.3%	53,348	(51.6)%
	12-31-05	382,501	355,498	(27,003)	107.6%	51,018	(52.9)%
	12-31-04	363,110	334,272	(28,838)	108.6%	49,368	(58.4)%
	12-31-03	340,857	316,649	(24,208)	107.6%	49,465	(48.9)%
Legislative	12-31-08	$ 30,097	$ 23,092	$ (7,005)	130.3%	$ 3,670	(190.9)%
	12-31-07	30,698	22,883	(7,815)	134.2%	3,680	(212.4)%
	12-31-06	29,589	21,742	(7,847)	136.1%	3,695	(212.4)%
	12-31-05	28,381	21,524	(6,857)	131.9%	3,681	(186.3)%
	12-31-04	27,478	20,696	(6,782)	132.8%	3,658	(185.4)%
	12-31-03	26,327	20,046	(6,281)	131.3%	3,692	(170.1)%
Firemen's and Rescue Squad Workers'	6-30-08	$ 316,973	$ 339,022	$ 22,049	93.5%	N/A	N/A
	6-30-07	305,869	322,453	16,584	94.9%	N/A	N/A
	6-30-06	287,933	304,339	16,406	94.6%	N/A	N/A
	6-30-05	274,265	285,356	11,091	96.1%	N/A	N/A
	6-30-04	261,148	273,826	12,678	95.4%	N/A	N/A
	6-30-03	249,925	260,707	10,782	95.9%	N/A	N/A
North Carolina National Guard	12-31-08	$ 78,067	$ 112,747	$ 34,680	69.2%	N/A	N/A
	12-31-07	74,794	109,431	34,637	68.3%	N/A	N/A
	12-31-06	66,898	105,017	38,119	63.7%	N/A	N/A
	12-31-05	59,204	81,803	22,599	72.4%	N/A	N/A
	12-31-04	54,069	93,388	39,319	57.9%	N/A	N/A
	12-31-03	51,316	58,752	7,436	87.3%	N/A	N/A
Registers of Deeds'	12-31-08	$ 37,212	$ 18,365	$ (18,847)	202.6%	$ 6,024	(312.9)%
	12-31-07	35,453	17,830	(17,623)	198.8%	5,869	(300.3)%
	12-31-06	32,371	17,375	(14,996)	186.3%	5,558	(269.8)%
	12-31-05	28,242	11,788	(16,454)	239.6%	5,367	(306.6)%
	12-31-04	24,262	12,240	(12,022)	198.2%	5,549	(216.6)%
	12-31-03	20,439	11,886	(8,553)	172.0%	5,178	(165.2)%
Local Governmental Employees'	12-31-08	$ 17,100,739	$ 17,173,975	$ 73,236	99.6%	$ 4,974,742	1.5%
	12-31-07	16,791,984	16,868,147	76,163	99.5%	4,750,682	1.6%
	12-31-06	15,564,789	15,643,377	78,588	99.5%	4,468,394	1.8%
	12-31-05	14,395,849	14,480,208	84,359	99.4%	4,241,334	2.0%
	12-31-04	13,377,297	13,466,189	88,892	99.3%	4,088,170	2.2%
	12-31-03	12,364,380	12,455,503	91,123	99.3%	3,898,476	2.3%

NOTE 1- A negative UAAL denotes excess actuarial assets

N/A - Not applicable

The information presented in these required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information for the latest actuarial valuations is presented on page 139.

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS FROM THE EMPLOYERS AND OTHER CONTRIBUTING ENTITIES
ALL DEFINED BENEFIT PENSION TRUST FUNDS

For the Six-Year Period 2004 to 2009 (July 1 to June 30)

(Expressed in Thousands)

Retirement System	*State Fiscal Year*	*Annual Required Contribution*	*Percentage Contributed*	
Teachers' and State Employees'	2009	$ 472,374	100%	
	2008	406,576	99%	Note 1
	2007	332,149	100%	Note 2
	2006	269,587	100%	
	2005	237,170	100%	
	2004	23,135	100%	Note 2
Consolidated Judicial	2009	$ 8,373	106%	
	2008	8,158	104%	Note 1
	2007	6,520	100%	Note 2
	2006	6,448	100%	Note 2
	2005	6,513	100%	
	2004	5,583	100%	Note 2
Legislative	2009	$ —	NR	
	2008	—	NR	Note 1
	2007	—	NR	
	2006	—	NR	
	2005	—	NR	
	2004	—	NR	
Firemen's and Rescue Squad Workers'	2009	$ 9,757	100%	
	2008	8,734	100%	
	2007	8,440	100%	
	2006	7,926	100%	
	2005	7,521	100%	
	2004	6,801	100%	Note 2
North Carolina National Guard	2009	$ 6,248	94%	
	2008	6,232	112%	
	2007	7,327	96%	
	2006	5,944	102%	
	2005	1,412	111%	
	2004	1,176	100%	Note 2
Registers of Deeds' ***NOTE 3***	2009	$ —	NR	
	2008	—	NR	
	2007	—	NR	
	2006	—	NR	
	2005	29	10,458%	
	2004	286	1,158%	
Local Governmental Employees'	2009	$ 265,690	100%	
	2008	246,004	100%	
	2007	233,003	100%	
	2006	226,665	100%	
	2005	216,097	100%	
	2004	208,092	100%	

NR- No contribution was required or made.

Note 1- The State made additional contributions not related to the ARC of $42.4 million for Teachers', $2.3 million for Judicial and $209 thousand for Legislative.

Note 2- The State made minor additional contributions not related to the ARC disclosed in that year's CAFR.

Note 3 For Registers, significant fees and collections are contributed. They are not directly related to the ARC.

The information presented in these required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information for the latest actuarial valuations is presented on page 139.

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF FUNDING PROGRESS
OTHER POSTEMPLOYMENT BENEFITS

June 30, 2009

(Expressed in Thousands)

	Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b) (1)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c) (3)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
Retiree Health Benefit (2)	12-31-08	$ 434,769	$ 28,288,439	$ 27,853,670	1.5%	$ 15,295,560	182.1%
	12-31-07	296,500	28,890,120	28,593,620	1.0%	14,810,279	193.1%
	12-31-05	139,175	23,925,139	23,785,964	0.6%	12,359,975	192.4%
Disability Income	12-31-08	$ 350,145	$ 477,574	$ 127,429	73.3%	$ 14,493,066	0.9%
	12-31-07	326,674	474,614	147,940	68.8%	13,849,158	1.1%
	12-31-06	302,632	459,284	156,652	65.9%	12,736,915	1.2%
	12-31-05	279,286	438,186	158,900	63.7%	11,928,558	1.3%

(1) The Retiree Health Benefit AAL has been prepared using the projected unit credit cost method. The Disability Income AAL has been prepared using the entry age actuarial cost method. The information presented is intended to approximate the funding progress of the plan as required by GASB Statements 43 and 45.

(2) The State legislature recently enacted legislation, which established service-based contributions for employees hired October 1, 2006 or later (February 1, 2007 for legislators). The valuation dated December 31, 2007 and subsequent valuations include the impact of this legislation. A valuation was not done for December 31, 2006.

(3) Buck Consulting reported the unadjusted covered payroll for the DIPNC long-term disability benefits. Aon Consulting reported the adjusted, annualized payroll for postemployment health benefits.

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF EMPLOYER CONTRIBUTIONS
OTHER POSTEMPLOYMENT BENEFITS

For the Fiscal Years Ended June 30, 2007-2009

(Expressed in Thousands)

		State Fiscal Year	Annual Required Contribution	Percentage Contributed
Retiree Health Benefit	(1)	2009	$ 2,674,416	31%
		2008	2,714,184	22%
		2007	2,389,583	22%
Disability Income		2009	$ 78,314	102%
		2008	73,470	102%
		2007	70,116	102%

(1) For fiscal year ending June 30, 2009, total contributions as defined by the actuary are the total net retiree benefits paid by the State Health Plan plus employer contributions deposited to the Retiree Health Benefit Fund less payments from the Fund to the State Health Plan during the fiscal year.
For prior fiscal years, total contributions were only the employer contributions deposited to the Retiree Health Benefit Fund.

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (BUDGETARY BASIS — NON-GAAP)
GENERAL FUND

For the Fiscal Year Ended June 30, 2009
(Dollars in Thousands)

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
Revenues:				
Taxes:				
Individual income	$ 11,386,200	$ 11,386,200	$ 9,470,173	$ (1,916,027)
Corporate income	1,191,500	1,191,500	835,545	(355,955)
Sales and use	5,374,300	5,374,300	4,677,947	(696,353)
Franchise	587,000	587,000	651,939	64,939
Insurance	522,200	522,200	466,602	(55,598)
Beverage	233,800	233,800	228,459	(5,341)
Inheritance	161,700	161,700	104,256	(57,444)
Tobacco products	236,200	236,200	227,057	(9,143)
Other	146,500	146,500	117,102	(29,398)
Non-Tax:				
Fees, licenses and fines	204,800	204,800	194,759	(10,041)
Investment income	248,064	248,064	113,334	(134,730)
Disproportionate share receipts	100,000	100,000	100,000	—
Other	309,971	309,971	265,089	(44,882)
Transfers in	147,500	147,500	165,141	17,641
Tobacco settlement	—	87,593	87,593	—
Departmental:				
Federal funds	10,411,541	11,871,115	10,606,593	(1,264,522)
Local funds	843,107	978,738	900,721	(78,017)
Inter-agency grants and allocations	21,029	9,617	7,100	(2,517)
Intra-governmental transactions	3,091,766	3,600,482	3,777,378	176,896
Sales and services	76,438	95,927	103,987	8,060
Rental and lease of property	8,826	9,456	9,399	(57)
Fees, licenses and fines	343,528	362,948	384,890	21,942
Contributions, gifts and grants	952,202	1,162,989	1,197,262	34,273
Federal recovery funds	—	985,246	1,115,409	130,163
Miscellaneous	725,178	481,299	150,192	(331,107)
Total Revenues	37,323,350	40,495,145	35,957,927	(4,537,218)
Expenditures:				
Current:				
General government	1,851,242	962,281	648,207	314,074
Primary and secondary education	9,768,796	11,344,555	10,009,228	1,335,327
Higher education	3,903,978	4,171,360	3,818,340	353,020
Health and human services	17,355,501	18,909,231	18,281,733	627,498
Environment and natural resources	466,410	499,443	417,180	82,263
Economic development	274,286	351,227	272,626	78,601
Public safety, corrections, and regulation	2,326,849	2,660,921	2,324,688	336,233
Agriculture	89,685	149,342	135,893	13,449
Capital outlay	129,082	129,082	23,071	106,011
Debt service	1,821,502	1,527,432	1,397,357	130,075
Total Expenditures	37,987,331	40,704,874	37,328,323	3,376,551
Excess revenues over (under) expenditures	(663,981)	(209,729)	(1,370,396)	(1,160,667)
Total fund balance at July 1, 2008, as restated	1,998,288	1,998,288	1,998,288	—
Total fund balance at June 30, 2009	$ 1,334,307	$ 1,788,559	$ 627,892	$ (1,160,667)

Fund balance reserved:				
Statutory			$ 199,136	
Non-reverting purposes			336,519	
Fund balance unreserved			92,237	
Total fund balance at June 30, 2009			$ 627,892	

BUDGETARY REPORTING

A. General Fund Budgetary Process

The State of North Carolina operates on a biennial budget cycle with separate annual departmental certified budgets adopted by the General Assembly on the cash basis of accounting for the General Fund.

The accompanying budgetary comparison schedule discloses the annual original budget and final budget for the General Fund. Actual amounts in the schedule are presented on the budgetary basis. Since the budgetary basis differs from generally accepted accounting principles (GAAP), a reconciliation between the budgetary basis and the GAAP basis is presented in section C below.

On July 20, 2006, the General Assembly passed House Bill 914, the State Budget Act, to replace the Executive Budget Act. This legislation was effective July 1, 2007 and affected budget development and management by simplifying, reorganizing, updating the current budget statutes, and making changes to conform the statutes to the state constitutional provisions governing appropriations. The legislation provided that agency budgets be classified in accordance with generally accepted accounting principles as interpreted by the State Controller.

The legal level of budgetary control is essentially at the object level. However, departments and institutions may make changes at their discretion within the budget of each purpose between and among objects for supplies and materials, current obligations and services, fixed charges and other expenses, and capital outlay. Also, Chapter 116, Article 1, Part 2A of the General Statutes authorized the 16 universities within the University of North Carolina System and the North Carolina School of Science and Mathematics to apply for special responsibility status, which sets the legal level of budgetary control at the institution's budget code level. A budget code is a convention used in the State's accounting system to distinguish the type of fund and the responsible department or institution. Budget codes are also used to segregate certain purposes within departments or institutions. Institutions with special responsibility status must still have certain budget revisions, primarily those associated with unanticipated revenues, approved by the Office of State Budget and Management (OSBM). Additionally, universities must maintain programs and services in accordance with the guidelines established by the Board of Governors of the consolidated University of North Carolina System. All 16 universities and the North Carolina School of Science and Mathematics have applied for and received special responsibility status.

Generally, unexpended appropriations at the end of the fiscal year lapse and are reappropriated in the next fiscal year. However, in certain circumstances the OSBM will allow a department to carry forward appropriations for specifically identified expenditures that will be paid in the next fiscal year. This is accomplished by the department writing a check to itself and recording a budgetary expenditure. The check is deposited in the next fiscal year as a budgetary receipt.

A detailed listing of appropriation and departmental budget information is available for public inspection in the separately published "Budgetary Compliance Report" prepared by the Office of the State Controller, 3512 Bush Street, Raleigh, NC 27609-7509 and through the Office of State Budget and Management, 116 West Jones Street, Raleigh, NC 27603-8005.

B. Special Fund Budgetary Process

The major special revenue funds, which are the Highway Fund and Highway Trust Fund, do not have annual appropriated budgets.

C. Reconciliation of Budget/GAAP Reporting Differences

The *Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Budgetary Basis – Non-GAAP) – General Fund*, presents comparisons of the legally adopted budget (which is more fully described in section A, above) with actual data on a budgetary basis. Accounting principles applied to develop data on a budgetary basis differ significantly from those principles used to present financial statements in conformity with generally accepted accounting principles (GAAP). The following describes the major differences between budgetary financial data and GAAP financial data.

Entity differences. Certain funds not included in the annual budgetary statements but which have the characteristics of governmental funds are presented in the General Fund for GAAP purposes.

Basis differences. Budgetary funds are accounted for on the cash basis of accounting, while under GAAP the governmental funds use the modified accrual basis. Accrued revenues and expenditures are recognized in the GAAP financial statements.

Timing differences. A significant variance between budgetary practices and GAAP is the authorized carryforward of appropriated funds, which is described in section A.

The following table presents a reconciliation of resulting entity, basis and timing differences in the fund balances (budgetary basis) at June 30, 2009 to the fund balances on a modified accrual basis (GAAP). Amounts are expressed in thousands.

	General Fund
Fund balance (budgetary basis), June 30, 2009	$ 627,892
Reconciling Adjustments:	
Entity Difference:	
Primary government:	
Other	1,951
Basis Differences:	
Accrued revenues:	
Taxes receivable	1,046,243
Accounts receivable	313,446
Federal funds, net	633,492
Other receivables	152,495
Less:	
Tax refunds payable	(1,426,309)
Deferred revenue	(523,895)
Total accrued revenues	195,472
Accrued expenditures:	
Medical claims payable	(972,070)
Accounts payable and accrued liabilities	(618,011)
Other payables	(204,681)
Total accrued expenditures	(1,794,762)
Other Adjustments:	
Notes receivable	22,828
Inventories	69,596
Timing Differences:	
Authorized carryforward for specific encumbrances	101,159
Fund balance (GAAP basis) June 30, 2009	$ (775,864)

D. Budgetary Reserves

The North Carolina General Assembly has established several accounts in the General Fund as reserved fund balances for budgetary purposes. Funds that are transferred to these accounts from the unreserved credit balance of the General Fund can be used only for their intended purposes and on a budgetary basis are not available for appropriation.

Savings Reserve Account (General Statute 143C-4-2). The State Controller shall reserve to the Savings Reserve Account one-fourth of any unreserved fund balance, as determined on a cash basis, remaining in the General Fund at the end of each fiscal year. The Savings Reserve Account is a component of the unappropriated General Fund balance. Funds reserved to the Savings Reserve Account shall be available for expenditure only upon an act of appropriation by the General Assembly. The General Assembly recognizes the need to establish and maintain sufficient reserves to address unanticipated events and circumstances such as natural disasters, economic downturns, threats to public safety, health, and welfare, and other emergencies. It is a goal of the General Assembly and the State to accumulate and maintain a balance in the Savings Reserve Account equal to or greater than eight percent (8%) of the prior year's General Fund operating budget.

At the beginning of fiscal year 2008-09 the balance of the Savings Reserve Account was $786.65 million. However, due to insufficient funds in the State Health Plan, $250 million was transferred from the Savings Reserve Account to supplement their cash needs. Furthermore, as revenue collections were significantly less than the budgeted revenues, $386.65 million was transferred to General Fund availability as directed by the Governor to help ensure the State not incur a deficit. The General Assembly did not authorize any transfer of unreserved fund balance to the Savings Reserve Account under Session Law 2009-451 and 2009-575. At the end of the fiscal year 2008-09, the balance of this reserve was $150 million.

Repairs and Renovations Reserve Account (General Statute 143C-4-3). The Repairs and Renovations Reserve Account is established as a reserve in the General Fund. The State Controller shall reserve to the Repairs and Renovations Reserve Account one-fourth of any unreserved fund balance, as determined on a cash basis, remaining in the General Fund at the end of each fiscal year. The funds in the Repairs and Renovations Reserve Account shall be used only for the repair and renovation of State facilities and related infrastructure that are supported from the General Fund. Funds reserved to the Repairs and Renovations Reserve Account shall be available for expenditure only upon an act of appropriation by the General Assembly. In accordance with Session Law 2008-107, House Bill 2436, Section 2.2.(b) the State Controller was directed to transfer $69.84 million from the unreserved credit balance to the Repairs and Renovations Reserve Account on June 30, 2008. This $69.84 million was appropriated by the General Assembly for fiscal year 2008-09, but was not expended and was reverted to the General Fund as directed by the Governor to help ensure the State not incur a deficit at year end. In addition, the General Assembly did not authorize any transfer of remaining unreserved fund balance to the Repair and Renovation Reserve Account under Session Law 2009-451 and 2009-575. At the end of the fiscal year 2008-09, the balance of this reserve was $0.

Disproportionate Share Reserve Account (Session Law 2005-276, Senate Bill 622, Section 10.12). Disproportionate share payments are Medicaid payments made to hospitals which serve a disproportionate share of indigent patients. This account was established to reserve for future appropriation any excess collection of disproportionate share revenues above those budgeted as non-tax revenues. The Session Law 2008-107 directed the transfer of $19.3 million to the General Fund availability. The Governor also directed $3 thousand to be transferred to General Fund availability to help ensure the State not incur a deficit at year end. At the end of the fiscal year 2008-09, the remaining balance of this reserve was $0.

Disaster Relief Reserve (Session Law 2005-1, Senate Bill 7). During fiscal year 2004-2005 $248.17 million was transferred to the Disaster Relief Reserve. This $248.17 million was funded from required agency, university, and community college transfers, a Savings Reserve Account transfer, and transfers of funds from the unreserved credit balance. During

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

the fiscal year 2008-09 $44.2 million was disbursed for disaster related expenditures and $9 million was transferred to General Fund availability as directed by the Governor to help ensure that the State not incur a deficit. At the end of the fiscal year 2008-09, the remaining balance of this reserve was $43.95 million.

One North Carolina Fund Reserve. The Office of State Budget and Management, after consultation with Joint Legislative Commission on Governmental Operations on November 4, 2003, established the One North Carolina Fund Reserve. This reserve was funded by a transfer from the unexpended legislative increase appropriation of $1.5 million. During the fiscal year, an establishment of $0.4 million was expended. However, since fiscal year 2003-04 no further funds have been disbursed. During fiscal year 2008-09, the remaining balance of $1.08 million was transferred to General Fund availability to help ensure that the State not incur a deficit. At the end of fiscal year 2008-09, the remaining balance of this reserve was $0.

Job Development Investment Grant (JDIG) Program Reserve (General Statute 143-15.3E). In accordance with Session Law 2004-124, House Bill 1414, Section 6.12.(a), Article 1 of Chapter 143 of the General Statutes was amended by adding a new section requiring the establishment of a JDIG Reserve in the General Fund. It is the intent of the General Assembly to annually appropriate funds to this reserve in amounts sufficient to meet anticipated cash requirements for each fiscal year of the JDIG Program established pursuant to General Statute 143B-437.52. Funds in the amount of $4.5 million were appropriated for fiscal year 2004-05, $9 million for fiscal year 2005-06, $12.4 million for fiscal year 2006-07 and $12.4 million for fiscal year 2007-08. While $27.4 million was appropriated for JDIG for fiscal year 2008-09, this entire amount was directed by the Governor to revert at year end to help ensure that the State not incur a deficit. At the end of fiscal year 2008-09, the balance of this reserve was $5.18 million.

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COMBINING FUND STATEMENTS AND SCHEDULES

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NONMAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

June 30, 2009 — *Exhibit C-1*

(Dollars in Thousands)

	Special Revenue Funds	Capital Projects Funds	Permanent Funds	Total Nonmajor Governmental Funds
Assets				
Cash and cash equivalents	$ 1,452,482	$ —	$ 748	$ 1,453,230
Investments	280,787	—	—	280,787
Securities lending collateral	494,044	—	28,654	522,698
Receivables, net:				
Taxes receivable	2,217	—	—	2,217
Accounts receivable	27,910	—	11	27,921
Intergovernmental receivable	5,450	484	—	5,934
Interest receivable	4,287	—	12	4,299
Due from other funds	24,501	6,786	—	31,287
Due from component units	33,168	—	—	33,168
Inventories	41,356	—	—	41,356
Advances to component units	21,742	—	—	21,742
Notes receivable, net	311,220	—	—	311,220
Securities held in trust	43,320	—	—	43,320
Restricted/designated cash and cash equivalents	115	299,037	8,578	307,730
Restricted investments	536,353	2,519	70,068	608,940
Total Assets	$ 3,278,952	$ 308,826	$ 108,071	$ 3,695,849
Liabilities and Fund Balances				
Liabilities:				
Accounts payable and accrued liabilities:				
Accounts payable	$ 53,825	$ 23,210	$ —	$ 77,035
Accrued payroll	591	—	—	591
Intergovernmental payable	47,659	2,841	—	50,500
Claims payable	28,516	—	—	28,516
Obligations under securities lending	494,044	—	28,654	522,698
Due to fiduciary funds	47	—	—	47
Due to other funds	12,585	—	—	12,585
Due to component units	117,144	—	—	117,144
Deferred revenue	29,606	—	—	29,606
Deposits payable	242	1	—	243
Funds held for others	43,383	—	—	43,383
Total Liabilities	827,642	26,052	28,654	882,348
Fund Balances:				
Reserved	655,100	285,512	75,992	1,016,604
Unreserved	1,796,210	(2,738)	3,425	1,796,897
Total Fund Balances	2,451,310	282,774	79,417	2,813,501
Total Liabilities and Fund Balances	$ 3,278,952	$ 308,826	$ 108,071	$ 3,695,849

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS

For the Fiscal Year Ended June 30, 2009 *Exhibit C-2*

(Dollars in Thousands)

	Special Revenue Funds	Capital Projects Funds	Permanent Funds	Total Nonmajor Governmental Funds
Revenues:				
Taxes:				
Individual income tax	$ 2,930	$ —	$ —	$ 2,930
Corporate income tax	56,236	—	—	56,236
Sales and use tax	32,320	—	—	32,320
Gasoline tax	27,359	—	—	27,359
Insurance tax	16,682	—	—	16,682
Beverage tax	875	—	—	875
Other taxes	153,957	—	—	153,957
Federal funds	297,724	7,608	—	305,332
Local funds	15,738	—	—	15,738
Investment earnings	47,369	17	5,708	53,094
Interest earnings on loans	4,726	—	—	4,726
Sales and services	172,755	84	60	172,899
Rental and lease of property	4,347	23	9	4,379
Fees, licenses, and fines	259,663	—	3,185	262,848
Contributions, gifts, and grants	17,248	96,134	66	113,448
Funds escheated	27,399	—	—	27,399
Federal recovery funds	3,244	—	—	3,244
Miscellaneous	16,120	142	—	16,262
Total revenues	1,156,692	104,008	9,028	1,269,728
Expenditures:				
Current:				
General government	65,385	—	—	65,385
Primary and secondary education	433,187	—	—	433,187
Higher education	379,521	2,076	25	381,622
Health and human services	103,214	—	2	103,216
Economic development	306,823	—	—	306,823
Environment and natural resources	408,142	—	517	408,659
Public safety, corrections, and regulation	491,735	—	—	491,735
Agriculture	23,936	—	—	23,936
Capital outlay	—	369,326	—	369,326
Debt service:				
Principal retirement	1,636	—	—	1,636
Interest and fees	798	8	—	806
Debt issuance costs	2,968	—	—	2,968
Total expenditures	2,217,345	371,410	544	2,589,299
Excess revenues over (under) expenditures	(1,060,653)	(267,402)	8,484	(1,319,571)
Other Financing Sources (Uses):				
Special indebtedness issued	600,000	—	—	600,000
Other debt issued	—	1,070	—	1,070
Premium on debt issued	31,371	—	—	31,371
Sale of capital assets	3,945	289	—	4,234
Insurance recoveries	388	273	—	661
Transfers in	1,449,075	171,001	680	1,620,756
Transfers out	(1,255,774)	(32,745)	(2,872)	(1,291,391)
Total other financing sources (uses)	829,005	139,888	(2,192)	966,701
Net change in fund balances	(231,648)	(127,514)	6,292	(352,870)
Fund balances — July 1, as restated	2,682,958	410,288	73,125	3,166,371
Fund balances — June 30	$ 2,451,310	$ 282,774	$ 79,417	$ 2,813,501

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NONMAJOR SPECIAL REVENUE FUNDS

The special revenue funds are maintained to account for those financial resources which are restricted by legal, regulatory or administrative action to finance particular functions or activities of the State.

The following are included in the nonmajor special revenue funds:

Escheat Fund
Health and Wellness Trust Fund
Tobacco Trust Fund
Clean Water Funds
Public School Bond Fund
Higher Education and Public Improvement Bond Funds
Public School Building Capital Fund
Clean Water Management Trust Fund
N.C. Infrastructure Finance Corporation
Special Indebtedness
Natural Gas Funds
Correction Enterprises Fund
Educational Materials and School Buses Fund
Employment Security Commission Funds
Highway Patrol Fund
Employment and Training Administration Fund
Leaking Petroleum Underground Storage Tank Cleanup Fund
Ecosystem Enhancement Funds
Wildlife Resources Commission Fund
Natural Heritage Trust Fund
911 Fund
Parks and Recreation Trust Fund
Education Lottery Funds
Departmental Funds

COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS

June 30, 2009

(Dollars in Thousands)

	Escheat Fund	Health and Wellness Trust Fund	Tobacco Trust Fund	Clean Water Funds	Public School Bond Fund	Higher Education and Public Improvement Bond Funds	Public School Building Capital Fund	Clean Water Management Trust Fund
Assets								
Cash and cash equivalents	$ 234,260	$ 63,876	$ 17,324	$ 41,532	$ —	$ —	$ 234,886	$ 140,414
Investments	280,547	—	—	—	—	—	—	—
Securities lending collateral	135,121	24,339	9,649	11,195	—	—	100,152	53,501
Receivables, net:								
Taxes receivable	—	—	—	—	—	—	—	—
Accounts receivable	—	—	—	—	—	—	—	—
Intergovernmental receivable	—	—	—	—	—	—	—	—
Interest receivable	339	93	—	571	—	20	356	—
Due from other funds	—	—	—	—	—	6	—	—
Due from component units	14,445	—	—	—	—	—	—	—
Inventories	—	—	—	—	—	—	—	—
Advances to component units	21,742	—	—	—	—	—	—	—
Notes receivable, net	—	—	—	104,073	—	—	—	—
Securities held in trust	—	—	—	—	—	—	—	—
Restricted/designated cash and cash equivalents	—	—	—	—	—	—	—	—
Restricted investments	—	—	—	—	—	141,711	—	—
Total Assets	$ 686,454	$ 88,308	$ 26,973	$ 157,371	$ —	$ 141,737	$ 335,394	$ 193,915
Liabilities and Fund Balances								
Liabilities:								
Accounts payable and accrued liabilities:								
Accounts payable	$ 31	$ 654	$ —	$ —	$ —	$ —	$ —	$ 2,229
Accrued payroll	—	—	—	—	—	—	—	—
Intergovernmental payable	—	—	—	—	—	—	—	1,483
Claims payable	28,516	—	—	—	—	—	—	—
Obligations under securities lending	135,121	24,339	9,649	11,195	—	—	100,152	53,501
Due to fiduciary funds	—	—	—	—	—	—	—	—
Due to other funds	—	4	6	—	—	—	—	5
Due to component units	6,366	5,000	—	—	—	76,011	—	—
Deferred revenue	16,760	—	—	—	—	—	—	—
Deposits payable	—	—	—	—	—	—	—	—
Funds held for others	—	—	—	—	—	—	—	—
Total Liabilities	186,794	29,997	9,655	11,195	—	76,011	100,152	57,218
Fund Balances:								
Reserved for:								
Inventories	—	—	—	—	—	—	—	—
Notes receivable	—	—	—	104,073	—	—	—	—
Capital projects	—	—	—	—	—	—	—	—
Loan and grant commitments	—	—	—	6,897	—	—	—	147,224
Advance to component unit	21,742	—	—	—	—	—	—	—
Unreserved:								
Undesignated	477,918	58,311	17,318	35,206	—	65,726	235,242	(10,527)
Total Fund Balances	499,660	58,311	17,318	146,176	—	65,726	235,242	136,697
Total Liabilities and Fund Balances	$ 686,454	$ 88,308	$ 26,973	$ 157,371	$ —	$ 141,737	$ 335,394	$ 193,915

Exhibit C-3

N.C. Infrastructure Finance Corporation	Special Indebtedness	Natural Gas Funds	Correction Enterprises Fund	Educational Materials and School Buses Fund	Employment Security Commission Funds	Highway Patrol Fund	Employment and Training Administration Fund	Leaking Petroleum Underground Storage Tank Cleanup Fund
$ —	$ —	$ —	$ 10,148	$ 32,112	$ 14,316	$ 7,006	$ 583	$ 59,270
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	1,571	—	22,080
—	—	—	—	—	—	—	—	1,524
—	—	—	1,139	1,408	1,063	1,352	—	546
—	—	—	117	74	1,190	32	—	—
—	—	—	—	—	—	—	—	82
—	—	—	9,870	—	75	776	—	—
—	—	—	10	—	—	—	—	—
—	—	—	19,155	4,315	229	12,558	—	—
—	—	—	—	—	—	—	—	—
—	—	200,000	—	—	—	—	—	652
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
37,411	355,213	—	—	—	—	—	—	—
$ 37,411	$ 355,213	$ 200,000	$ 40,439	$ 37,909	$ 16,873	$ 23,295	$ 583	$ 84,154
$ —	$ —	$ —	$ 4,783	$ 21,296	$ 4,136	$ 1,961	$ 56	$ 6,372
—	—	—	17	—	340	5	—	—
—	—	—	—	8	2,668	135	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	1,571	—	22,080
—	—	—	—	—	—	—	—	—
1,737	5,074	—	104	5	3,603	19	15	—
6,614	—	—	—	—	—	—	—	—
—	—	—	10	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
8,351	5,074	—	4,914	21,309	10,747	3,691	71	28,452
—	—	—	19,155	4,315	229	12,558	—	—
—	—	200,000	—	—	—	—	—	652
—	—	—	25	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
29,060	350,139	—	16,345	12,285	5,897	7,046	512	55,050
29,060	350,139	200,000	35,525	16,600	6,126	19,604	512	55,702
$ 37,411	$ 355,213	$ 200,000	$ 40,439	$ 37,909	$ 16,873	$ 23,295	$ 583	$ 84,154

Continued

COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS

June 30, 2009

(Dollars in Thousands)

	Ecosystem Enhancement Funds	Wildlife Resources Commission Fund	Natural Heritage Trust Fund	911 Fund	Parks and Recreation Trust Fund	Education Lottery Funds
Assets						
Cash and cash equivalents	$ 44,072	$ 19,867	$ 23,604	$ 36,024	$ 34,751	$ 16,816
Investments	—	—	—	—	—	—
Securities lending collateral	18,331	4,326	8,803	14,095	12,625	7
Receivables, net:						
Taxes receivable	—	—	—	—	—	—
Accounts receivable	—	521	—	8,350	—	—
Intergovernmental receivable	—	2,307	—	—	—	—
Interest receivable	—	18	30	50	—	19
Due from other funds	—	—	—	—	20	6,554
Due from component units	—	—	—	—	—	—
Inventories	—	1,647	—	—	—	—
Advances to component units	—	—	—	—	—	—
Notes receivable, net	—	—	—	—	—	—
Securities held in trust	—	—	—	—	—	—
Restricted/designated cash and cash equivalents	—	—	—	—	—	—
Restricted investments	—	—	—	—	—	—
Total Assets	$ 62,403	$ 28,686	$ 32,437	$ 58,519	$ 47,396	$ 23,396
Liabilities and Fund Balances						
Liabilities:						
Accounts payable and accrued liabilities:						
Accounts payable	$ 1,301	$ 549	$ 1,185	$ 43	$ 20	$ 240
Accrued payroll	—	36	—	—	—	—
Intergovernmental payable	—	—	—	18,005	269	—
Claims payable	—	—	—	—	—	—
Obligations under securities lending	18,331	4,326	8,803	14,095	12,625	7
Due to fiduciary funds	—	—	—	—	—	—
Due to other funds	10	225	—	1,274	—	—
Due to component units	—	—	—	—	—	—
Deferred revenue	—	—	—	—	—	—
Deposits payable	—	—	—	—	—	—
Funds held for others	—	—	—	—	—	—
Total Liabilities	19,642	5,136	9,988	33,417	12,914	247
Fund Balances:						
Reserved for:						
Inventories	—	1,647	—	—	—	—
Notes receivable	—	—	—	—	—	—
Capital projects	—	—	—	—	—	—
Loan and grant commitments	79,882	—	9,546	—	31,635	—
Advance to component unit	—	—	—	—	—	—
Unreserved:						
Undesignated	(37,121)	21,903	12,903	25,102	2,847	23,149
Total Fund Balances	42,761	23,550	22,449	25,102	34,482	23,149
Total Liabilities and Fund Balances	$ 62,403	$ 28,686	$ 32,437	$ 58,519	$ 47,396	$ 23,396

Exhibit C-3

Departmental Funds	Total Nonmajor Special Revenue Funds
$ 421,621	$ 1,452,482
240	280,787
78,249	494,044
693	2,217
13,531	27,910
1,730	5,450
2,709	4,287
7,200	24,501
18,713	33,168
3,452	41,356
—	21,742
6,495	311,220
43,320	43,320
115	115
2,018	536,353
$ 600,086	$ 3,278,952
$ 8,969	$ 53,825
193	591
25,091	47,659
—	28,516
78,249	494,044
47	47
504	12,585
23,153	117,144
12,836	29,606
242	242
43,383	43,383
192,667	827,642
3,452	41,356
6,495	311,220
—	25
5,573	280,757
—	21,742
391,899	1,796,210
407,419	2,451,310
$ 600,086	$ 3,278,952

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES NONMAJOR SPECIAL REVENUE FUNDS

For the Fiscal Year Ended June 30, 2009

(Dollars in Thousands)

	Escheat Fund	Health and Wellness Trust Fund	Tobacco Trust Fund	Clean Water Funds	Public School Bond Fund	Higher Education and Public Improvement Bond Funds	Public School Building Capital Fund	Clean Water Management Trust Fund
Revenues:								
Taxes:								
Individual income tax	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Corporate income tax	—	—	—	—	—	—	56,236	—
Sales and use tax	—	—	—	—	—	—	—	—
Gasoline tax	—	—	—	—	—	—	—	—
Insurance tax	—	—	—	—	—	—	—	—
Beverage tax	—	—	—	—	—	—	—	—
Other taxes	—	—	—	—	—	—	—	—
Federal funds	—	—	—	—	—	—	—	—
Local funds	—	—	—	—	—	—	—	—
Investment earnings	(4,331)	2,957	832	1,274	12	2,567	12,818	9,185
Interest earnings on loans	—	—	—	3,829	—	—	—	—
Sales and services	—	—	—	33	—	—	—	—
Rental and lease of property	—	—	—	—	—	—	—	—
Fees, licenses, and fines	—	—	—	—	—	—	—	—
Contributions, gifts, and grants	—	—	—	—	—	—	—	—
Funds escheated	27,399	—	—	—	—	—	—	—
Federal recovery funds	—	—	—	—	—	—	—	—
Miscellaneous	—	—	7	10	—	—	—	—
Total revenues	23,068	2,957	839	5,146	12	2,567	69,054	9,185
Expenditures:								
Current:								
General government	6,300	—	—	—	1	153	—	—
Primary and secondary education	—	—	—	—	—	—	224,270	—
Higher education	153,700	—	—	—	—	32,544	—	—
Health and human services	—	26,796	—	—	—	—	—	—
Economic development	—	—	—	22,488	—	—	—	—
Environment and natural resources	—	—	—	4,201	—	—	—	88,174
Public safety, corrections, and regulation	—	—	—	—	—	—	—	—
Agriculture	—	—	14,844	—	—	—	—	—
Debt service:								
Principal retirement	—	—	—	—	—	—	—	—
Interest and fees	—	—	—	—	—	—	—	—
Debt issuance costs	—	—	—	—	—	—	—	—
Total expenditures	160,000	26,796	14,844	26,689	1	32,697	224,270	88,174
Excess revenues over (under) expenditures	(136,932)	(23,839)	(14,005)	(21,543)	11	(30,130)	(155,216)	(78,989)
Other Financing Sources (Uses):								
Special indebtedness issued	—	—	—	—	—	—	—	—
Premium on debt issued	—	—	—	—	—	—	—	—
Sale of capital assets	—	—	—	—	—	—	—	—
Insurance recoveries	—	—	—	—	—	—	—	—
Transfers in	—	43,797	43,797	25,512	—	—	162,262	85,959
Transfers out	(22,216)	(38,830)	(35,120)	(9,990)	(2,340)	(54,639)	(15,860)	(101,835)
Total other financing sources (uses)	(22,216)	4,967	8,677	15,522	(2,340)	(54,639)	146,402	(15,876)
Net change in fund balances	(159,148)	(18,872)	(5,328)	(6,021)	(2,329)	(84,769)	(8,814)	(94,865)
Fund balances — July 1, as restated	658,808	77,183	22,646	152,197	2,329	150,495	244,056	231,562
Fund balances — June 30	$ 499,660	$ 58,311	$ 17,318	$ 146,176	$ —	$ 65,726	$ 235,242	$ 136,697

Exhibit C-4

N.C. Infrastructure Finance Corporation	Special Indebtedness	Natural Gas Funds	Correction Enterprises Fund	Educational Materials and School Buses Fund	Employment Security Commission Funds	Highway Patrol Fund	Employment and Training Administration Fund	Leaking Petroleum Underground Storage Tank Cleanup Fund
$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	17,486
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	134,493	344	80,002	—
—	—	—	—	—	11,156	—	—	—
779	654	—	—	—	—	160	—	2,198
—	—	—	—	—	—	—	—	—
—	—	—	83,673	2,627	—	1,303	6	—
—	—	—	63	2,220	—	51	—	—
—	—	—	—	—	4,925	1,442	224	13,223
—	—	—	—	—	1,601	1,227	1	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	169	—	3,075	—
—	—	—	119	127	962	422	—	—
779	654	—	83,855	4,974	153,306	4,949	83,308	32,907
149	—	—	—	—	—	—	—	—
—	—	—	—	134,391	—	—	—	—
32,378	111,865	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	6,735	—	—	—	173,222	—	82,579	—
—	—	—	—	—	—	—	—	17,551
—	—	—	82,568	—	—	221,783	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
46	32	—	—	—	—	—	—	—
1	2,967	—	—	—	—	—	—	—
32,574	121,599	—	82,568	134,391	173,222	221,783	82,579	17,551
(31,795)	(120,945)	—	1,287	(129,417)	(19,916)	(216,834)	729	15,356
—	600,000	—	—	—	—	—	—	—
—	31,371	—	—	—	—	—	—	—
—	—	—	125	1,386	—	2,249	—	—
—	—	—	—	—	—	388	—	—
—	—	—	5,232	143,594	20,669	210,264	—	3,708
(54,373)	(160,287)	—	(5,063)	(50,789)	(4,117)	(1,754)	(272)	(4,795)
(54,373)	471,084	—	294	94,191	16,552	211,147	(272)	(1,087)
(86,168)	350,139	—	1,581	(35,226)	(3,364)	(5,687)	457	14,269
115,228	—	200,000	33,944	51,826	9,490	25,291	55	41,433
$ 29,060	$ 350,139	$ 200,000	$ 35,525	$ 16,600	$ 6,126	$ 19,604	$ 512	$ 55,702

Continued

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES NONMAJOR SPECIAL REVENUE FUNDS

For the Fiscal Year Ended June 30, 2009

(Dollars in Thousands)

	Ecosystem Enhancement Funds	Wildlife Resources Commission Fund	Natural Heritage Trust Fund	911 Fund	Parks and Recreation Trust Fund	Education Lottery Funds
Revenues:						
Taxes:						
Individual income tax	$ —	$ —	$ —	$ —	$ —	$ —
Corporate income tax	—	—	—	—	—	—
Sales and use tax	—	24,747	—	—	—	—
Gasoline tax	—	1,923	—	—	—	—
Insurance tax	—	—	—	—	—	—
Beverage tax	—	—	—	—	—	—
Other taxes	—	—	9,009	93,616	27,028	—
Federal funds	—	15,739	—	—	—	—
Local funds	—	251	—	—	—	—
Investment earnings	2,006	605	1,014	1,439	1,876	1,787
Interest earnings on loans	—	—	—	—	—	—
Sales and services	—	6,175	—	880	—	—
Rental and lease of property	—	104	—	—	—	—
Fees, licenses, and fines	43,449	22,990	4,365	—	1,425	—
Contributions, gifts, and grants	—	1,084	—	—	—	—
Funds escheated	—	—	—	—	—	—
Federal recovery funds	—	—	—	—	—	—
Miscellaneous	—	78	—	—	—	—
Total revenues	45,455	73,696	14,388	95,935	30,329	1,787
Expenditures:						
Current:						
General government	—	—	—	—	—	—
Primary and secondary education	—	—	—	—	—	268
Higher education	—	—	—	—	—	38,963
Health and human services	—	—	—	—	—	—
Economic development	—	—	—	—	—	—
Environment and natural resources	43,278	64,794	46,855	—	72,176	—
Public safety, corrections, and regulation	—	—	—	92,094	—	—
Agriculture	—	—	—	—	—	—
Debt service:						
Principal retirement	—	720	—	—	—	—
Interest and fees	—	715	—	—	—	—
Debt issuance costs	—	—	—	—	—	—
Total expenditures	43,278	66,229	46,855	92,094	72,176	39,231
Excess revenues over (under) expenditures	2,177	7,467	(32,467)	3,841	(41,847)	(37,444)
Other Financing Sources (Uses):						
Special indebtedness issued	—	—	—	—	—	—
Premium on debt issued	—	—	—	—	—	—
Sale of capital assets	—	127	—	—	—	—
Insurance recoveries	—	—	—	—	—	—
Transfers in	—	2,838	32,519	—	30,792	413,929
Transfers out	(1,205)	(3,181)	(3,897)	(6,845)	(9,793)	(407,075)
Total other financing sources (uses)	(1,205)	(216)	28,622	(6,845)	20,999	6,854
Net change in fund balances	972	7,251	(3,845)	(3,004)	(20,848)	(30,590)
Fund balances — July 1, as restated	41,789	16,299	26,294	28,106	55,330	53,739
Fund balances — June 30	$ 42,761	$ 23,550	$ 22,449	$ 25,102	$ 34,482	$ 23,149

Exhibit C-4

Departmental Funds	Total Nonmajor Special Revenue Funds
$ 2,930	$ 2,930
—	56,236
7,573	32,320
7,950	27,359
16,682	16,682
875	875
24,304	153,957
67,146	297,724
4,331	15,738
9,537	47,369
897	4,726
78,058	172,755
1,909	4,347
167,620	259,663
13,335	17,248
—	27,399
—	3,244
14,395	16,120
417,542	1,156,692
58,782	65,385
74,258	433,187
10,071	379,521
76,418	103,214
21,799	306,823
71,113	408,142
95,290	491,735
9,092	23,936
916	1,636
5	798
—	2,968
417,744	2,217,345
(202)	(1,060,653)
—	600,000
—	31,371
58	3,945
—	388
224,203	1,449,075
(261,498)	(1,255,774)
(37,237)	829,005
(37,439)	(231,648)
444,858	2,682,958
$ 407,419	$ 2,451,310

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES — BUDGET AND ACTUAL (BUDGETARY BASIS — NON-GAAP) NONMAJOR SPECIAL REVENUE FUNDS

For the Fiscal Year Ended June 30, 2009

(Dollars in Thousands)

	Escheat Fund			Health and Wellness Trust Fund			Tobacco Trust Fund		
Revenues:	Final Budget	Actual	Variance with Final Budget	Final Budget	Actual	Variance with Final Budget	Final Budget	Actual	Variance with Final Budget
Departmental:									
Federal funds	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Local funds	—	—	—	—	—	—	—	—	—
Inter-agency grants and allocations	—	—	—	—	—	—	—	—	—
Intra-governmental transactions	—	—	—	25,779	44,315	18,536	43,797	43,797	—
Sales and services	—	—	—	—	—	—	—	—	—
Sale, rental, and lease of property	—	—	—	—	—	—	—	—	—
Fees, licenses, and fines	—	—	—	—	—	—	—	—	—
Contributions, gifts, and grants	—	—	—	—	—	—	—	—	—
Federal recovery funds	—	—	—	—	—	—	—	—	—
Miscellaneous	202,107	15,463	(186,644)	—	2,717	2,717	234	819	585
Total revenues	202,107	15,463	(186,644)	25,779	47,032	21,253	44,031	44,616	585
Expenditures:									
Current:									
General government	173,374	173,373	1	65,747	60,166	5,581	—	—	—
Primary and secondary education	—	—	—	—	—	—	—	—	—
Higher education	—	—	—	—	—	—	—	—	—
Health and human services	—	—	—	—	—	—	—	—	—
Economic development	—	—	—	—	—	—	—	—	—
Environmental and natural resources	—	—	—	—	—	—	—	—	—
Public safety and corrections	—	—	—	—	—	—	—	—	—
Agriculture	—	—	—	—	—	—	49,829	49,829	—
Debt service:									
Principal retirement	—	—	—	—	—	—	—	—	—
Interest and fees	—	—	—	—	—	—	—	—	—
Debt issuance cost	—	—	—	—	—	—	—	—	—
Total expenditures	173,374	173,373	1	65,747	60,166	5,581	49,829	49,829	—
Excess revenues over (under) expenditures	$ 28,733	$ (157,910)	$ (186,643)	$ (39,968)	$ (13,134)	$ 26,834	$ (5,798)	$ (5,213)	$ 585
Fund balances (budgetary basis) at July 1, 2008		706,376			77,010			22,538	
Restatements		—			—			—	
Fund balances (budgetary basis) at June 30, 2009		$ 548,466			$ 63,876			$ 17,325	

Exhibit C-5

Clean Water Funds			Public School Bond Fund			Higher Education and Public Improvement Bond Funds			Public School Building Capital Fund		
Final Budget	Actual	Variance with Final Budget	Final Budget	Actual	Variance with Final Budget	Final Budget	Actual	Variance with Final Budget	Final Budget	Actual	Variance with Final Budget
$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
19,510	6,539	(12,971)	—	—	—	—	—	—	211,948	218,499	6,551
31	33	2	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
17,771	15,707	(2,064)	305	16	(289)	45,420	3,066	(42,354)	11,707	11,707	—
37,312	22,279	(15,033)	305	16	(289)	45,420	3,066	(42,354)	223,655	230,206	6,551
9,838	9,218	620	2,303	2,300	3	207,004	150,533	56,471	—	—	—
—	—	—	—	—	—	—	—	—	466,547	238,212	228,335
—	—	—	—	—	—	9,017	9,017	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
16,529	3,615	12,914	—	—	—	—	—	—	—	—	—
28,084	9,220	18,864	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	765	—	765	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
54,451	22,053	32,398	2,303	2,300	3	216,786	159,550	57,236	466,547	238,212	228,335
$ (17,139)	$ 226	$ 17,365	$ (1,998)	$ (2,284)	$ (286)	$(171,366)	$(156,484)	$ 14,882	$(242,892)	$ (8,006)	$ 234,886
	39,241			2,284			298,194			242,892	
	—			—			—			—	
	$ 39,467			$ —			$ 141,710			$ 234,886	

Continued

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES — BUDGET AND ACTUAL (BUDGETARY BASIS — NON-GAAP) NONMAJOR SPECIAL REVENUE FUNDS

For the Fiscal Year Ended June 30, 2009

(Dollars in Thousands)

	Clean Water Management Trust Fund			N.C. Infrastructure Finance Corporation			Special Indebtedness		
	Final Budget	Actual	Variance with Final Budget	Final Budget	Actual	Variance with Final Budget	Final Budget	Actual	Variance with Final Budget
Revenues:									
Departmental:									
Federal funds	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Local funds	—	—	—	—	—	—	—	—	—
Inter-agency grants and allocations	—	—	—	—	—	—	—	—	—
Intra-governmental transactions	102,717	86,783	(15,934)	10,872	13,703	2,831	600,000	600,000	—
Sales and services	—	—	—	—	—	—	—	—	—
Sale, rental, and lease of property	—	—	—	—	—	—	—	—	—
Fees, licenses, and fines	—	—	—	—	—	—	—	—	—
Contributions, gifts, and grants	—	—	—	—	—	—	—	—	—
Federal recovery funds	—	—	—	—	—	—	—	—	—
Miscellaneous	10,000	8,670	(1,330)	329,575	975	(328,600)	208,351	631,944	423,593
Total revenues	112,717	95,453	(17,264)	340,447	14,678	(325,769)	808,351	1,231,944	423,593
Expenditures:									
Current:									
General government	—	—	—	405,773	108,850	296,923	800,000	473,813	326,187
Primary and secondary education	—	—	—	—	—	—	—	—	—
Higher education	—	—	—	—	—	—	—	—	—
Health and human services	—	—	—	—	—	—	—	—	—
Economic development	—	—	—	—	—	—	—	—	—
Environmental and natural resources	212,717	189,562	23,155	—	—	—	—	—	—
Public safety and corrections	—	—	—	—	—	—	—	—	—
Agriculture	—	—	—	—	—	—	—	—	—
Debt service:						—			—
Principal retirement	—	—	—	722	720	2	—	—	—
Interest and fees	—	—	—	928	757	171	32	32	—
Debt issuance cost	—	—	—	1,385	1	1,384	2,889	2,712	177
Total expenditures	212,717	189,562	23,155	408,808	110,328	298,480	802,921	476,557	326,364
Excess revenues over (under) expenditures	$(100,000)	$ (94,109)	$ 5,891	$ (68,361)	$ (95,650)	$ (27,289)	$ 5,430	$ 755,387	$ 749,957
Fund balances (budgetary basis) at July 1, 2008		234,523			129,472			—	
Restatements		—			3,597			—	
Fund balances (budgetary basis) at June 30, 2009		$ 140,414			$ 37,419			$ 755,387	

Exhibit C-5

Natural Gas Funds			Correction Enterprises Fund			Educational Materials and School Buses Fund			Employment Security Commission Funds		
Final Budget	Actual	Variance with Final Budget	Final Budget	Actual	Variance with Final Budget	Final Budget	Actual	Variance with Final Budget	Final Budget	Actual	Variance with Final Budget
$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 176,698	$ 135,747	$ (40,951)
—	—	—	—	—	—	—	—	—	12,195	10,821	(1,374)
—	—	—	—	—	—	—	—	—	2,789	1,538	(1,251)
—	—	—	2,250	5,232	2,982	143,076	143,742	666	52,572	44,455	(8,117)
—	—	—	91,378	79,115	(12,263)	1,677	2,535	858	—	—	—
—	—	—	77	94	17	2,600	3,606	1,006	—	—	—
—	—	—	—	—	—	—	—	—	6,000	4,925	(1,075)
—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
21	—	(21)	392	162	(230)	—	127	127	2,405	2,253	(152)
21	—	(21)	94,097	84,603	(9,494)	147,353	150,010	2,657	252,659	199,739	(52,920)
464	—	464	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	218,517	217,746	771	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
4	—	4	—	—	—	—	—	—	252,659	202,048	50,611
—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	93,799	86,525	7,274	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
468	—	468	93,799	86,525	7,274	218,517	217,746	771	252,659	202,048	50,611
$ (447)	$ —	$ 447	$ 298	$ (1,922)	$ (2,220)	$ (71,164)	$ (67,736)	$ 3,428	$ —	$ (2,309)	$ (2,309)
	—			12,069			99,848			16,624	
	—			—			—			—	
	$ —			$ 10,147			$ 32,112			$ 14,315	

Continued

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES — BUDGET AND ACTUAL (BUDGETARY BASIS — NON-GAAP) NONMAJOR SPECIAL REVENUE FUNDS

For the Fiscal Year Ended June 30, 2009

(Dollars in Thousands)

	Highway Patrol Fund			Employment and Training Administation Fund			Leaking Petroleum Underground Storage Tank Cleanup Fund		
	Final Budget	Actual	Variance with Final Budget	Final Budget	Actual	Variance with Final Budget	Final Budget	Actual	Variance with Final Budget
Revenues:									
Departmental:									
Federal funds	$ 2,497	$ 415	$ (2,082)	$ 202,744	$ 80,002	$ (122,742)	$ —	$ —	$ —
Local funds	—	—	—	—	—	—	—	—	—
Inter-agency grants and allocations	2,010	1,224	(786)	—	—	—	—	—	—
Intra-governmental transactions	234,766	211,344	(23,422)	168	50	(118)	9,929	20,443	10,514
Sales and services	1,651	1,331	(320)	—	6	6	—	—	—
Sale, rental, and lease of property	2,285	2,194	(91)	1	—	(1)	—	—	—
Fees, licenses, and fines	1	1,443	1,442	265	224	(41)	9,580	14,791	5,211
Contributions, gifts, and grants	32	—	(32)	1	1	—	—	—	—
Federal recovery funds	—	—	—	—	3,075	3,075	—	—	—
Miscellaneous	456	873	417	—	—	—	110	1,971	1,861
Total revenues	243,698	218,824	(24,874)	203,179	83,358	(119,821)	19,619	37,205	17,586
Expenditures:									
Current:									
General government	—	—	—	—	—	—	—	—	—
Primary and secondary education	—	—	—	—	—	—	—	—	—
Higher education	—	—	—	—	—	—	—	—	—
Health and human services	—	—	—	—	—	—	—	—	—
Economic development	—	—	—	203,194	82,866	120,328	—	—	—
Environmental and natural resources	—	—	—	—	—	—	27,150	25,592	1,558
Public safety and corrections	254,213	225,090	29,123	—	—	—	—	—	—
Agriculture	—	—	—	—	—	—	—	—	—
Debt service:									
Principal retirement	—	—	—	—	—	—	—	—	—
Interest and fees	—	—	—	—	—	—	—	—	—
Debt issuance cost	—	—	—	—	—	—	—	—	—
Total expenditures	254,213	225,090	29,123	203,194	82,866	120,328	27,150	25,592	1,558
Excess revenues over (under) expenditures	$ (10,515)	$ (6,266)	$ 4,249	$ (15)	$ 492	$ 507	$ (7,531)	$ 11,613	$ 19,144
Fund balances (budgetary basis) at July 1, 2008		13,274			49			47,657	
Restatements		—			—			—	
Fund balances (budgetary basis) at June 30, 2009		$ 7,008			$ 541			$ 59,270	

Exhibit C-5

Ecosystem Enhancement Funds			Wildlife Resources Commission Fund			Natural Heritage Trust Fund			911 Fund		
Final Budget	Actual	Variance with Final Budget	Final Budget	Actual	Variance with Final Budget	Final Budget	Actual	Variance with Final Budget	Final Budget	Actual	Variance with Final Budget
$ —	$ —	$ —	$ 14,122	$ 15,752	$ 1,630	$ —	$ —	$ —	$ —	$ —	$ —
—	—	—	253	251	(2)	—	—	—	—	—	—
—	—	—	643	80	(563)	—	—	—	—	—	—
4,738	29,108	24,370	91,357	89,603	(1,754)	19,150	14,944	(4,206)	—	—	—
—	—	—	6,295	6,172	(123)	—	—	—	772	903	131
—	—	—	137	162	25	—	—	—	—	—	—
59,867	43,441	(16,426)	21,086	22,917	1,831	—	4,366	4,366	87,419	96,176	8,757
—	—	—	462	515	53	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
—	1,883	1,883	301	610	309	1,000	920	(80)	1,567	1,286	(281)
64,605	74,432	9,827	134,656	136,062	1,406	20,150	20,230	80	89,758	98,365	8,607
—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
99,245	75,370	23,875	135,260	128,186	7,074	68,236	22,860	45,376	—	—	—
—	—	—	—	—	—	—	—	—	98,628	92,841	5,787
—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	720	720	—	—	—	—	—	—	—
—	—	—	715	715	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
99,245	75,370	23,875	136,695	129,621	7,074	68,236	22,860	45,376	98,628	92,841	5,787
$ (34,640)	$ (938)	$ 33,702	$ (2,039)	$ 6,441	$ 8,480	$ (48,086)	$ (2,630)	$ 45,456	$ (8,870)	$ 5,524	$ 14,394
	45,008			13,426			26,234			30,500	
	—			—			—			—	
	$ 44,070			$ 19,867			$ 23,604			$ 36,024	

Continued

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES — BUDGET AND ACTUAL (BUDGETARY BASIS — NON-GAAP) NONMAJOR SPECIAL REVENUE FUNDS

For the Fiscal Year Ended June 30, 2009

(Dollars in Thousands)

	Parks and Recreation Trust Fund			Education Lottery Funds			Departmental Funds		
Revenues:	Final Budget	Actual	Variance with Final Budget	Final Budget	Actual	Variance with Final Budget	Final Budget	Actual	Variance with Final Budget
Departmental:									
Federal funds	$ —	$ —	$ —	$ —	$ —	$ —	$ 80,697	$ 65,612	$ (15,085)
Local funds	—	—	—	—	—	—	13,002	4,370	(8,632)
Inter-agency grants and allocations	—	—	—	—	—	—	17,567	10,054	(7,513)
Intra-governmental transactions	58,206	27,028	(31,178)	771,745	412,433	(359,312)	347,252	307,763	(39,489)
Sales and services	—	—	—	—	—	—	83,638	77,869	(5,769)
Sale, rental, and lease of property	—	—	—	—	—	—	2,076	2,061	(15)
Fees, licenses, and fines	1,380	1,425	45	—	—	—	128,023	131,012	2,989
Contributions, gifts, and grants	—	—	—	—	—	—	5,835	4,354	(1,481)
Federal recovery funds	—	—	—	—	—	—	—	—	—
Miscellaneous	—	1,793	1,793	1,725	1,725	—	55,070	53,519	(1,551)
Total revenues	59,586	30,246	(29,340)	773,470	414,158	(359,312)	733,160	656,614	(76,546)
Expenditures:									
Current:									
General government	—	—	—	—	—	—	248,053	221,959	26,094
Primary and secondary education	—	—	—	843,220	447,354	395,866	81,933	62,977	18,956
Higher education	—	—	—	—	—	—	722	520	202
Health and human services	—	—	—	—	—	—	114,574	89,614	24,960
Economic development	—	—	—	—	—	—	77,721	24,048	53,673
Environmental and natural resources	74,946	52,317	22,629	—	—	—	167,885	112,991	54,894
Public safety and corrections	—	—	—	—	—	—	180,690	155,334	25,356
Agriculture	—	—	—	—	—	—	20,883	9,748	11,135
Debt service:									
Principal retirement	—	—	—	—	—	—	1,130	533	597
Interest and fees	—	—	—	—	—	—	1,687	388	1,299
Debt issuance cost	—	—	—	—	—	—	—	—	—
Total expenditures	74,946	52,317	22,629	843,220	447,354	395,866	895,278	678,112	217,166
Excess revenues over (under) expenditures	$ (15,360)	$ (22,071)	$ (6,711)	$ (69,750)	$ (33,196)	$ 36,554	$ (162,118)	$ (21,498)	$ 140,620
Fund balances (budgetary basis) at July 1, 2008		56,821			50,012			416,150	
Restatements		—			—			(2)	
Fund balances (budgetary basis) at June 30, 2009		$ 34,750			$ 16,816			$ 394,650	

Exhibit C-5

Total Nonmajor Special Revenue Funds		
Final Budget	Actual	Variance with Final Budget
$ 476,758	$ 297,528	$ (179,230)
25,450	15,442	(10,008)
23,009	12,896	(10,113)
2,749,832	2,319,781	(430,051)
185,442	167,964	(17,478)
7,176	8,117	941
313,621	320,720	7,099
6,330	4,870	(1,460)
—	3,075	3,075
888,517	758,206	(130,311)
4,676,135	3,908,599	(767,536)
1,912,556	1,200,212	712,344
1,610,217	966,289	643,928
9,739	9,537	202
114,574	89,614	24,960
550,107	312,577	237,530
813,523	616,098	197,425
627,330	559,790	67,540
70,712	59,577	11,135
2,572	1,973	599
4,127	1,892	2,235
4,274	2,713	1,561
5,719,731	3,820,272	1,899,459
$(1,043,596)	$ 88,327	$ 1,131,923
	2,580,202	
	3,595	
	$ 2,672,124	

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NONMAJOR CAPITAL PROJECTS FUNDS

The Capital Projects funds are maintained to account for those financial resources received and used for the acquisition, construction or improvement of major governmental general fixed assets which are financed principally by transfers from the General Fund or lease purchase revenue bonds and certificates of participation.

The following activities are included in the nonmajor capital projects funds:

Capital Projects Fund
State Energy Contracts

COMBINING BALANCE SHEET
NONMAJOR CAPITAL PROJECTS FUNDS

June 30, 2009 *Exhibit C-6*

(Dollars in Thousands)

	Capital Projects Fund	State Energy Contracts	Total Nonmajor Capital Projects Funds
Assets			
Receivables, net:			
Intergovernmental receivable	$ 484	$ —	$ 484
Due from other funds	6,786	—	6,786
Restricted/designated cash and cash equivalents	299,037	—	299,037
Restricted investments	104	2,415	2,519
Total Assets	$ 306,411	$ 2,415	$ 308,826
Liabilities and Fund Balances			
Liabilities:			
Accounts payable and accrued liabilities:			
Accounts payable	$ 23,210	$ —	$ 23,210
Intergovernmental payable	2,841	—	2,841
Deposits payable	1	—	1
Total Liabilities	26,052	—	26,052
Fund Balances:			
Reserved for:			
Capital projects commitments	284,168	1,344	285,512
Unreserved:			
Undesignated	(3,809)	1,071	(2,738)
Total Fund Balances	280,359	2,415	282,774
Total Liabilities and Fund Balances	$ 306,411	$ 2,415	$ 308,826

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES NONMAJOR CAPITAL PROJECTS FUNDS

For the Fiscal Year Ended June 30, 2009

Exhibit C-7

(Dollars in Thousands)

	Capital Projects Fund	State Energy Contracts	Total Nonmajor Capital Projects Funds
Revenues:			
Federal funds	$ 7,608	$ —	$ 7,608
Investment earnings	1	16	17
Sales and services	84	—	84
Rental and lease of property	23	—	23
Contributions, gifts, and grants	96,134	—	96,134
Miscellaneous	142	—	142
Total revenues	103,992	16	104,008
Expenditures:			
Current:			
Higher education	2,076	—	2,076
Capital outlay	369,319	7	369,326
Debt service:			
Interest and fees	—	8	8
Total expenditures	371,395	15	371,410
Excess revenues over (under) expenditures	(267,403)	1	(267,402)
Other Financing Sources (Uses):			
Other debt issued	—	1,070	1,070
Sale of capital assets	289	—	289
Insurance recoveries	273	—	273
Transfers in	171,001	—	171,001
Transfers out	(32,745)	—	(32,745)
Total other financing sources (uses)	138,818	1,070	139,888
Net change in fund balances	(128,585)	1,071	(127,514)
Fund balances — July 1, as restated	408,944	1,344	410,288
Fund balances — June 30	$ 280,359	$ 2,415	$ 282,774

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NONMAJOR PERMANENT FUNDS

Permanent funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs—that is, for the benefit of the government or its citizenry.

The following are included in nonmajor permanent funds:

Wildlife Endowment Fund
Departmental Funds

COMBINING BALANCE SHEET
NONMAJOR PERMANENT FUNDS

June 30, 2009

Exhibit C-8

(Dollars in Thousands)

	Wildlife Endowment Fund	Departmental Funds	Total Nonmajor Permanent Funds
Assets			
Cash and cash equivalents	$ —	$ 748	$ 748
Receivables, net:			
Accounts receivable	8	3	11
Interest receivable	—	12	12
Securities lending collateral	25,265	3,389	28,654
Restricted/designated cash and cash equivalents	422	8,156	8,578
Restricted investments	69,479	589	70,068
Total Assets	$ 95,174	$ 12,897	$ 108,071
Liabilities and Fund Balances			
Liabilities:			
Obligations under securities lending	$ 25,265	$ 3,389	$ 28,654
Total Liabilities	25,265	3,389	28,654
Fund Balances:			
Reserved for:			
Permanent investments	69,145	6,847	75,992
Unreserved:			
Undesignated	764	2,661	3,425
Total Fund Balances	69,909	9,508	79,417
Total Liabilities and Fund Balances	$ 95,174	$ 12,897	$ 108,071

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES NONMAJOR PERMANENT FUNDS

For the Fiscal Year Ended June 30, 2009 *Exhibit C-9*

(Dollars in Thousands)

	Wildlife Endowment Fund	Departmental Funds	Total Nonmajor Permanent Funds
Revenues:			
Investment earnings	$ 5,338	$ 370	$ 5,708
Sales and services	60	—	60
Rental and lease of propery	—	9	9
Fees, licenses, and fines	2,504	681	3,185
Contributions, gifts, and grants	2	64	66
Total revenues	7,904	1,124	9,028
Expenditures:			
Current:			
Higher education	—	25	25
Health and human services	—	2	2
Environment and natural resources	383	134	517
Total expenditures	383	161	544
Excess revenues over (under) expenditures	7,521	963	8,484
Other Financing Sources (Uses):			
Transfers in	—	680	680
Transfers out	(2,872)	—	(2,872)
Total other financing sources (uses)	(2,872)	680	(2,192)
Net change in fund balances	4,649	1,643	6,292
Fund balances — July 1	65,260	7,865	73,125
Fund balances — June 30	$ 69,909	$ 9,508	$ 79,417

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES — BUDGET AND ACTUAL (BUDGETARY BASIS — NON-GAAP) NONMAJOR PERMANENT FUNDS

For the Fiscal Year Ended June 30, 2009

(Dollars in Thousands)

	Wildlife Endowment Fund			Departmental Funds		
Revenues:	**Final Budget**	**Actual**	**Variance with Final Budget**	**Final Budget**	**Actual**	**Variance with Final Budget**
Departmental:						
Inter-agency grants and allocations	$ —	$ —	$ —	—	$ 65	$ 65
Intra-governmental transactions	1,489	1,489	—	1,094	680	(414)
Sales and services	57	60	3	—	—	—
Sale, rental, and lease of property	—	—	—	9	9	—
Fees, licenses, and fines	2,929	2,500	(429)	843	680	(163)
Contributions, gifts, and grants	7	2	(5)	—	—	—
Miscellaneous	4,076	6,030	1,954	453	336	(117)
Total revenues	8,558	10,081	1,523	2,399	1,770	(629)
Expenditures:						
Current:						
Higher education	—	—	—	26	12	14
Environmental and natural resources	4,516	4,445	71	319	86	233
Total expenditures	4,516	4,445	71	345	98	247
Excess revenues over (under) expenditures	$ 4,042	5,636	$ 1,594	$ 2,054	1,672	$ (382)
Fund balances (budgetary basis) at July 1, 2008		63,801			7,811	
Fund balances (budgetary basis) at June 30, 2009		$ 69,437			$ 9,483	

Exhibit C-10

Total Nonmajor Permanent Funds		
Final Budget	Actual	Variance with Final Budget
$ —	$ 65	$ 65
2,583	2,169	(414)
57	60	3
9	9	—
3,772	3,180	(592)
7	2	(5)
4,529	6,366	1,837
10,957	11,851	894
26	12	14
4,835	4,531	304
4,861	4,543	318
$ 6,096	7,308	$ 1,212
	71,612	
	$ 78,920	

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PROPRIETARY FUNDS

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NONMAJOR ENTERPRISE FUNDS

Enterprise funds are used to report activities for which a fee is charged to external users for goods or services.

The following activities are included in the nonmajor enterprise funds:

Public School Insurance
North Carolina State Fair
USS North Carolina Battleship Commission
Agricultural Farmers Market
Workers' Compensation
Utilities Commission
State Banking Commission
ABC Commission
Departmental Funds

COMBINING STATEMENT OF NET ASSETS
NONMAJOR ENTERPRISE FUNDS

June 30, 2009

(Dollars in Thousands)

	Public School Insurance	North Carolina State Fair	USS North Carolina Battleship Commission	Agricultural Farmers Market	Workers' Compensation	Utilities Commission	State Banking Commission
Assets							
Current Assets:							
Cash and cash equivalents	$ 12,473	$ 2,815	$ 822	$ 938	$ 6,366	$ 12,142	$ 2,812
Investments	46,705	—	—	—	16,630	—	—
Securities lending collateral	21,634	—	—	—	8,344	4,576	—
Receivables:							
Accounts receivable, net	1,000	164	19	—	23	3,161	—
Interest receivable	18	—	—	—	9	—	—
Premiums receivable	1,423	—	—	—	—	—	—
Inventories	—	117	283	7	—	46	—
Prepaid items	2,846	—	95	—	1,452	—	—
Restricted cash and cash equivalents	—	—	271	—	—	—	—
Total current assets	86,099	3,096	1,490	945	32,824	19,925	2,812
Noncurrent Assets:							
Investments	—	—	3,127	—	—	—	—
Restricted investments	—	—	2,134	—	—	—	—
Capital assets-nondepreciable	—	1,379	629	1,087	—	—	—
Capital assets-depreciable, net	—	7,166	1,706	5,393	—	127	91
Total noncurrent assets	—	8,545	7,596	6,480	—	127	91
Total Assets	86,099	11,641	9,086	7,425	32,824	20,052	2,903
Liabilities							
Current Liabilities:							
Accounts payable and accrued liabilities:							
Accounts payable	3	69	71	29	—	38	111
Accrued payroll	—	41	23	4	—	—	—
Claims payable	457	—	—	—	15,246	—	—
Obligations under securities lending	21,634	—	—	—	8,344	4,576	—
Due to other funds	3	20	—	2	—	13	21
Unearned revenue	4,443	784	7	—	2,235	—	—
Deposits payable	—	17	—	—	—	—	—
Pollution remediation payable - current	—	163	—	—	—	—	—
Compensated absences	9	22	15	5	—	126	82
Total current liabilities	26,549	1,116	116	40	25,825	4,753	214
Noncurrent Liabilities:							
Pollution remediation payable	—	87	—	—	—	—	—
Compensated absences	90	282	87	69	—	1,437	931
Total noncurrent liabilities	90	369	87	69	—	1,437	931
Total Liabilities	26,639	1,485	203	109	25,825	6,190	1,145
Net Assets							
Invested in capital assets	—	8,545	2,335	6,480	—	127	91
Restricted for:							
Capital outlay	—	—	2,405	—	—	—	—
Unrestricted	59,460	1,611	4,143	836	6,999	13,735	1,667
Total Net Assets	$ 59,460	$ 10,156	$ 8,883	$ 7,316	$ 6,999	$ 13,862	$ 1,758

Exhibit D-1

ABC Commission	Departmental Funds	Total Nonmajor Enterprise Funds
$ 7,556	$ 2,168	$ 48,092
—	—	63,335
—	—	34,554
121	31	4,519
—	—	27
—	—	1,423
34	41	528
—	—	4,393
—	—	271
7,711	2,240	157,142
—	—	3,127
—	—	2,134
550	339	3,984
2,768	7,989	25,240
3,318	8,328	34,485
11,029	10,568	191,627
424	45	790
3	4	75
—	—	15,703
—	—	34,554
22	1	82
—	145	7,614
—	—	17
—	—	163
20	4	283
469	199	59,281
—	—	87
229	54	3,179
229	54	3,266
698	253	62,547
3,318	8,328	29,224
—	—	2,405
7,013	1,987	97,451
$ 10,331	$ 10,315	$ 129,080

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS NONMAJOR ENTERPRISE FUNDS

For the Fiscal Year Ended June 30, 2009

(Dollars in Thousands)

	Public School Insurance	North Carolina State Fair	USS North Carolina Battleship Commission	Agricultural Farmers Market	Workers' Compensation	Utilities Commission
Operating Revenues:						
Sales and services	$ —	$ 187	$ 773	$ 23	$ —	$ 38
Rental and lease earnings	—	4,712	—	622	—	—
Fees, licenses, and fines	—	7,616	1,950	827	—	14,682
Insurance premiums	13,955	—	—	—	3,253	—
Miscellaneous	—	5	239	—	—	80
Total operating revenues	13,955	12,520	2,962	1,472	3,253	14,800
Operating Expenses:						
Personal services	610	5,335	1,250	762	—	12,615
Supplies and materials	1	959	69	58	—	37
Services	66	5,434	692	309	694	543
Cost of goods sold	—	—	269	—	—	—
Depreciation/amortization	—	667	115	335	—	6
Claims	2,514	49	—	—	6,104	—
Unemployment benefits	—	18	—	—	—	—
Insurance and bonding	3,642	165	19	40	949	1
Other	3	1,426	273	30	—	885
Total operating expenses	6,836	14,053	2,687	1,534	7,747	14,087
Operating income (loss)	7,119	(1,533)	275	(62)	(4,494)	713
Nonoperating Revenues (Expenses):						
Noncapital grants	—	—	—	—	—	225
Noncapital gifts	—	424	—	—	—	—
Investment earnings (loss)	4,099	—	(480)	—	1,597	539
Miscellaneous	(266)	4	—	2	(121)	(76)
Total nonoperating revenues (expenses)	3,833	428	(480)	2	1,476	688
Income (loss) before contributions and transfers	10,952	(1,105)	(205)	(60)	(3,018)	1,401
Capital contributions	—	82	43	—	—	—
Transfers in	—	—	—	—	3,116	—
Transfers out	—	(1,042)	—	(869)	—	(984)
Change in net assets	10,952	(2,065)	(162)	(929)	98	417
Net assets — July 1, as restated	48,508	12,221	9,045	8,245	6,901	13,445
Net assets — June 30	$ 59,460	$ 10,156	$ 8,883	$ 7,316	$ 6,999	$ 13,862

Exhibit D-2

State Banking Commission	ABC Commission	Departmental Funds	Total Nonmajor Enterprise Funds
$ —	$ 7	$ 121	$ 1,149
—	—	813	6,147
9,624	9,174	1,177	45,050
—	—	—	17,208
353	24	—	701
9,977	9,205	2,111	70,255
10,135	2,467	939	34,113
45	36	203	1,408
3,466	5,777	698	17,679
—	—	101	370
4	116	112	1,355
—	—	—	8,667
—	—	1	19
1	15	36	4,868
1,266	153	272	4,308
14,917	8,564	2,362	72,787
(4,940)	641	(251)	(2,532)
—	—	—	225
—	—	61	485
—	—	—	5,755
1	—	20	(436)
1	—	81	6,029
(4,939)	641	(170)	3,497
—	—	—	125
—	—	—	3,116
(183)	(123)	(200)	(3,401)
(5,122)	518	(370)	3,337
6,880	9,813	10,685	125,743
$ 1,758	$ 10,331	$ 10,315	$ 129,080

COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS

For the Fiscal Year Ended June 30, 2009

(Dollars in Thousands)

	Public School Insurance	North Carolina State Fair	USS North Carolina Battleship Commission	Agricultural Farmers Market	Workers' Compensation	Utilities Commission
Cash Flows from Operating Activities:						
Receipts from customers	$ 13,487	$ 12,565	$ 2,969	$ 1,472	$ 3,547	$ 14,753
Payments to suppliers	(4,025)	(7,983)	(1,361)	(451)	(3,086)	(886)
Payments to employees	(595)	(5,334)	(1,258)	(777)	—	(12,501)
Payments for prizes, benefits, and claims	(2,349)	(49)	—	—	(5,901)	—
Other receipts (payments)	—	4	—	2	—	(493)
Net cash flows provided (used) by operating activities	6,518	(797)	350	246	(5,440)	873
Cash Provided From (Used For) Noncapital Financing Activities:						
Grant receipts (refunds)	—	—	—	—	—	225
Transfers from other funds	—	—	—	—	3,116	—
Transfers to other funds	—	(1,042)	—	(869)	—	(984)
Gifts	—	424	—	—	—	—
Total cash provided from (used for) noncapital financing activities	—	(618)	—	(869)	3,116	(759)
Cash Provided From (Used For) Capital and Related Financing Activities:						
Acquisition and construction of capital assets	—	—	—	—	—	—
Capital contributions	—	—	43	—	—	—
Total cash provided from (used for) capital and related financing activities	—	—	43	—	—	—
Cash Provided From (Used For) Investment Activities:						
Purchase of non-State Treasurer investments	—	—	(1,310)	—	—	—
Purchase into State Treasurer investment pool	(5,000)	—	—	—	—	—
Investment earnings (loss)	538	—	86	—	305	463
Total cash provided from (used for) investment activities	(4,462)	—	(1,224)	—	305	463
Net increase (decrease) in cash and cash equivalents	2,056	(1,415)	(831)	(623)	(2,019)	577
Cash and cash equivalents at July 1	10,417	4,230	1,924	1,561	8,385	11,565
Cash and cash equivalents at June 30	$ 12,473	$ 2,815	$ 1,093	$ 938	$ 6,366	$ 12,142
Reconciliation of Operating Income to Net Cash Provided From (Used For) Operating Activities:						
Operating income (loss)	$ 7,119	$ (1,533)	$ 275	$ (62)	$ (4,494)	$ 713
Adjustments to reconcile operating income to net cash flows from operating activities:						
Depreciation/amortization	—	667	115	335	—	6
Restatements and adjustments	—	—	—	—	(17)	—
Nonoperating miscellaneous income (expense)	—	4	—	2	—	—
(Increases) decreases in assets:						
Receivables	(149)	47	11	—	30	32
Inventories	—	4	(71)	4	—	(5)
Prepaid items	(308)	—	2	—	(1,425)	—
Increases (decreases) in liabilities:						
Accounts payable and accrued liabilities	160	(256)	9	(20)	203	8
Due to other funds	—	10	—	1	—	4
Pollution remediation payable	—	250	—	—	—	—
Compensated absences	15	(3)	12	(14)	—	115
Unearned revenue	(319)	(2)	(3)	—	263	—
Deposits payable	—	15	—	—	—	—
Total cash provided from (used for) operations	$ 6,518	$ (797)	$ 350	$ 246	$ (5,440)	$ 873
Noncash Investing, Capital, and Financing Activities:						
Noncash distributions from the State Treasurer Long-Term Investment Portfolio and/or other agents	$ 2,467	$ —	$ —	$ —	$ 1,024	$ —
Transferred assets	—	82	—	—	—	—
Assets acquired through the assumption of a liability	21,634	—	—	—	8,344	4,576
Change in fair value of investments	848	—	561	—	164	—

Exhibit D-3

State Banking Commission	ABC Commission	Departmental Funds	Total Nonmajor Enterprise Funds
$ 9,667	$ 9,179	$ 2,077	$ 69,716
(4,144)	(6,027)	(1,281)	(29,244)
(9,940)	(2,495)	(948)	(33,848)
—	—	—	(8,299)
(256)	16	20	(707)
(4,673)	673	(132)	(2,382)
—	—	—	225
—	—	—	3,116
(183)	(123)	(200)	(3,401)
—	—	61	485
(183)	(123)	(139)	425
—	(8)	—	(8)
—	—	—	43
—	(8)	—	35
—	—	—	(1,310)
—	—	—	(5,000)
—	—	—	1,392
—	—	—	(4,918)
(4,856)	542	(271)	(6,840)
7,668	7,014	2,439	55,203
$ 2,812	$ 7,556	$ 2,168	$ 48,363
$ (4,940)	$ 641	$ (251)	$ (2,532)
4	116	112	1,355
—	—	—	(17)
1	—	20	27
44	(2)	(31)	(18)
—	6	32	(30)
—	—	—	(1,731)
9	(96)	(9)	8
14	12	—	41
—	—	—	250
195	(4)	(2)	314
—	—	(3)	(64)
—	—	—	15
$ (4,673)	$ 673	$ (132)	$ (2,382)
$ —	$ —	$ —	$ 3,491
—	—	—	82
—	—	—	34,554
—	—	—	1,573

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INTERNAL SERVICE FUNDS

The internal service funds are maintained to account for the operations of State agencies that provide services to other State agencies, component units, or other governmental units on a cost reimbursement basis.

The following activities are included in the internal service funds:

Office of the State Controller:
Workers' Compensation Program

Department of Administration:
Motor Fleet Management
Mail Service Center
Temporary Solutions
Surplus Property

Office of the Governor:
Computing Services
State Telecommunications Services

Department of Insurance:
State Property Fire Insurance

COMBINING STATEMENT OF NET ASSETS
INTERNAL SERVICE FUNDS

June 30, 2009

(Dollars in Thousands)

	Workers' Compensation Program	State Property Fire Insurance	Motor Fleet Management	Mail Service Center	Temporary Solutions
Assets					
Current Assets:					
Cash and cash equivalents	$ 727	$ 30,156	$ 38,498	$ 1	$ 191
Investments	—	21,152	—	—	—
Securities lending collateral	—	19,135	—	—	—
Receivables:					
Accounts receivable, net	1,474	—	1,882	294	1,508
Interest receivable	—	41	—	—	—
Premiums receivable	—	2,797	—	—	—
Due from fiduciary funds	—	—	—	—	—
Due from other funds	2,008	—	7,396	14	280
Due from component units	—	—	479	—	—
Inventories	—	—	103	30	—
Prepaid items	—	—	—	—	—
Total current assets	4,209	73,281	48,358	339	1,979
Noncurrent Assets:					
Capital assets-nondepreciable	—	—	288	—	—
Capital assets-depreciable, net	—	—	48,269	523	—
Total noncurrent assets	—	—	48,557	523	—
Total Assets	4,209	73,281	96,915	862	1,979
Liabilities					
Current Liabilities:					
Accounts payable and accrued liabilities:					
Accounts payable	—	5,187	1,588	21	—
Accrued payroll	—	—	1	14	496
Claims payable	—	2,090	—	—	—
Obligations under securities lending	—	19,135	—	—	—
Due to other funds	—	—	19	861	—
Unearned revenue	—	3,799	—	—	—
Compensated absences	—	22	12	17	4
Total current liabilities	—	30,233	1,620	913	500
Noncurrent Liabilities:					
Compensated absences	—	288	142	194	32
Total noncurrent liabilities	—	288	142	194	32
Total Liabilities	—	30,521	1,762	1,107	532
Net Assets					
Invested in capital assets	—	—	48,557	523	—
Unrestricted	4,209	42,760	46,596	(768)	1,447
Total Net Assets	$ 4,209	$ 42,760	$ 95,153	$ (245)	$ 1,447

Exhibit E-1

Computing Services	State Telecommunications Services	Surplus Property	Totals
$ 19,872	$ 12,986	$ 667	$ 103,098
—	—	—	21,152
—	—	—	19,135
1,914	4,296	19	11,387
—	—	—	41
—	—	—	2,797
1	2	—	3
11,882	6,276	584	28,440
3	493	—	975
20	—	—	153
1,988	82	—	2,070
35,680	24,135	1,270	189,251
6,217	—	19	6,524
48,990	4,841	80	102,703
55,207	4,841	99	109,227
90,887	28,976	1,369	298,478
911	352	864	8,923
—	6	—	517
—	—	—	2,090
—	—	—	19,135
525	104	47	1,556
—	—	—	3,799
276	99	11	441
1,712	561	922	36,461
3,395	1,217	122	5,390
3,395	1,217	122	5,390
5,107	1,778	1,044	41,851
55,207	4,841	99	109,227
30,573	22,357	226	147,400
$ 85,780	$ 27,198	$ 325	$ 256,627

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
INTERNAL SERVICE FUNDS

For the Fiscal Year Ended June 30, 2009

(Dollars in Thousands)

	Workers' Compensation Program	State Property Fire Insurance	Motor Fleet Management	Mail Service Center	Temporary Solutions
Operating Revenues:					
Sales and services	$ 50,496	$ —	$ 56,520	$ 3,941	$ 12,326
Rental and lease earnings	—	—	—	—	—
Fees, licenses, and fines	—	—	—	—	—
Insurance premiums	—	20,547	—	—	—
Miscellaneous	—	—	60	4	1
Total operating revenues	50,496	20,547	56,580	3,945	12,327
Operating Expenses:					
Personal services	—	1,934	2,169	2,948	12,578
Supplies and materials	—	2	17,784	66	4
Services	52,562	214	2,329	876	109
Cost of goods sold	—	—	402	—	—
Depreciation/amortization	—	—	17,417	83	—
Claims	—	1,785	—	—	—
Insurance and bonding	—	15,167	1,584	—	—
Other	—	71	11	66	44
Total operating expenses	52,562	19,173	41,696	4,039	12,735
Operating income (loss)	(2,066)	1,374	14,884	(94)	(408)
Nonoperating Revenues (Expenses):					
Investment earnings	—	3,190	—	—	—
Insurance recoveries	—	—	137	—	—
Gain (loss) on sale of equipment	—	—	475	—	—
Miscellaneous	—	(327)	—	—	—
Total nonoperating revenues (expenses)	—	2,863	612	—	—
Income (loss) before contributions and transfers	(2,066)	4,237	15,496	(94)	(408)
Capital contributions	—	—	63	—	—
Transfers in	928	—	—	426	—
Transfers out	—	—	—	—	—
Change in net assets	(1,138)	4,237	15,559	332	(408)
Net assets — July 1, as restated	5,347	38,523	79,594	(577)	1,855
Net assets — June 30	$ 4,209	$ 42,760	$ 95,153	$ (245)	$ 1,447

Exhibit E-2

Computing Services	State Telecommunications Services	Surplus Property	Totals
$ 91,803	$ 89,028	$ 1,957	$ 306,071
—	—	23	23
—	—	42	42
—	—	—	20,547
1	105	159	330
91,804	89,133	2,181	327,013
31,662	15,117	1,582	67,990
534	47	58	18,495
13,859	56,423	415	126,787
—	—	241	643
6,959	2,078	16	26,553
—	—	—	1,785
135	52	20	16,958
42,421	11,724	42	54,379
95,570	85,441	2,374	313,590
(3,766)	3,692	(193)	13,423
—	—	—	3,190
—	—	21	158
(34)	(48)	—	393
1	—	—	(326)
(33)	(48)	21	3,415
(3,799)	3,644	(172)	16,838
305	—	—	368
4,121	—	—	5,475
(36)	(500)	—	(536)
591	3,144	(172)	22,145
85,189	24,054	497	234,482
$ 85,780	$ 27,198	$ 325	$ 256,627

COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS

For the Fiscal Year Ended June 30, 2009

(Dollars in Thousands)

	Workers' Compensation Program	State Property Fire Insurance	Motor Fleet Management	Mail Service Center	Temporary Solutions
Cash Flows From Operating Activities:					
Receipts from customers	$ 9,354	$ 4,649	$ 5,223	$ 668	$ 135
Receipts from other funds	41,811	13,276	47,015	3,246	13,112
Payments to suppliers	(52,739)	(10,267)	(14,360)	(392)	(34)
Payments to employees	—	(1,940)	(2,198)	(2,934)	(12,802)
Payments for benefits and claims	—	(6,392)	—	—	—
Payments to other funds	—	(1,509)	(6,761)	(698)	(178)
Other receipts (payments)	—	—	55	(14)	(42)
Net cash flows provided (used) by operating activities	(1,574)	(2,183)	28,974	(124)	191
Cash Provided From (Used For) Noncapital Financing Activities:					
Transfers from other funds	928	—	—	426	—
Transfers to other funds	—	—	—	—	—
Total cash provided from (used for) noncapital financing activities	928	—	—	426	—
Cash Provided From (Used For) Capital and Related Financing Activities:					
Acquisition and construction of capital assets	—	—	(8,780)	(301)	—
Proceeds from the sale of capital assets	—	—	1,889	—	—
Insurance recoveries	—	—	137	—	—
Total cash provided from (used for) capital and related financing activities	—	—	(6,754)	(301)	—
Cash Provided From (Used For) Investment Activities:					
Investment earnings	—	1,421	—	—	—
Total cash provided from (used for) investment activities	—	1,421	—	—	—
Net increase (decrease) in cash and cash equivalents	(646)	(762)	22,220	1	191
Cash and cash equivalents at July 1	1,373	30,918	16,278	—	—
Cash and cash equivalents at June 30	$ 727	$ 30,156	$ 38,498	$ 1	$ 191
Reconciliation of Operating Income to Net Cash Provided From (Used For) Operating Activities:					
Operating income (loss)	$ (2,066)	$ 1,374	$ 14,884	$ (94)	$ (408)
Adjustments to reconcile operating income to net cash flows from operating activities:					
Depreciation/amortization	—	—	17,417	83	—
Restatements and adjustments	—	(112)	—	—	—
Nonoperating miscellaneous income (expense)	—	—	—	—	—
(Increases) decreases in assets:					
Receivables	886	(1,460)	(431)	(14)	1,201
Due from other funds	(394)	—	(3,909)	(14)	(280)
Due from fiduciary funds	—	—	1	—	—
Due from component units	—	—	57	—	—
Inventories	—	—	74	(11)	—
Prepaid items	—	—	—	—	—
Increases (decreases) in liabilities:					
Accounts payable and accrued liabilities	—	(930)	904	(7)	(227)
Due to other funds	—	—	6	(85)	(98)
Compensated absences	—	106	(29)	18	3
Unearned revenue	—	(1,161)	—	—	—
Total cash provided from (used for) operations	$ (1,574)	$ (2,183)	$ 28,974	$ (124)	$ 191
Noncash Investing, Capital, and Financing Activities:					
Noncash distributions from the State Treasurer Long-Term Investment Portfolio and/or other agents	$ —	$ 1,303	$ —	$ —	$ —
Donated or transferred assets (fair market value)	—	—	63	—	—
Assets acquired through the assumption of a liability	—	19,135	—	—	—
Change in fair value of investments	—	209	—	—	—

Exhibit E-3

Computing Services	State Telecommunications Services	Surplus Property	Totals
$ 1,796	$ 20,853	$ 819	$ 43,497
88,022	68,000	1,582	276,064
(40,985)	(66,135)	(625)	(185,537)
(30,921)	(15,015)	(1,617)	(67,427)
—	—	—	(6,392)
(9,766)	(1,838)	(615)	(21,365)
(1,343)	(266)	142	(1,468)
6,803	5,599	(314)	37,372
4,121	—	—	5,475
(36)	(500)	—	(536)
4,085	(500)	—	4,939
(10,022)	(1,788)	(6)	(20,897)
—	—	—	1,889
—	—	21	158
(10,022)	(1,788)	15	(18,850)
—	—	—	1,421
—	—	—	1,421
866	3,311	(299)	24,882
19,006	9,675	966	78,216
$ 19,872	$ 12,986	$ 667	$ 103,098
$ (3,766)	$ 3,692	$ (193)	$ 13,423
6,959	2,078	16	26,553
—	—	—	(112)
1	—	—	1
3,660	(2,373)	20	1,489
(5,647)	2,117	358	(7,769)
1	2	—	4
1	78	—	136
(1)	—	—	62
4,084	19	—	4,103
582	(142)	(386)	(206)
184	31	(95)	(57)
745	97	(34)	906
—	—	—	(1,161)
$ 6,803	$ 5,599	$ (314)	$ 37,372
$ —	$ —	$ —	$ 1,303
305	—	—	368
—	—	—	19,135
—	—	—	209

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FIDUCIARY FUNDS

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PRIVATE PURPOSE TRUST FUNDS

Private purpose trust funds account for resources held in trust in which the principal and income benefit individuals, private organizations, or other governments.

The following activities are included in the private purpose trust funds:

Deposits of Insurance Carriers Fund
Administrative Office of the Courts Trust Fund
Departmental Funds

COMBINING STATEMENT OF FIDUCIARY NET ASSETS PRIVATE PURPOSE TRUST FUNDS

June 30, 2009 *Exhibit F-1*

(Dollars in Thousands)

	Deposits of Insurance Carriers Fund	Administrative Office of the Courts Trust Fund	Departmental Funds	Totals
Assets				
Cash and cash equivalents	$ 192	$ 96,761	$ 434	$ 97,387
Investments:				
U.S. government securities	—	1,684	—	1,684
Certificates of deposit	—	63,214	—	63,214
Securities lending collateral	73	—	165	238
Sureties	880,026	—	—	880,026
Total Assets	880,291	161,659	599	1,042,549
Liabilities				
Obligations under securities lending	73	—	165	238
Total Liabilities	73	—	165	238
Net Assets				
Held in trust for:				
Individuals, organizations, and other governments	880,218	161,659	434	1,042,311
Total Net Assets	$ 880,218	$ 161,659	$ 434	$ 1,042,311

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS PRIVATE PURPOSE TRUST FUNDS

For the Fiscal Year Ended June 30, 2009 *Exhibit F-2*

(Dollars in Thousands)

	Deposits of Insurance Carriers Fund	Administrative Office of the Courts Trust Fund	Departmental Funds	Totals
Additions:				
Contributions:				
Trustee deposits	$ 22,546	$ 105,647	$ 4	$ 128,197
Total contributions	22,546	105,647	4	128,197
Investment Income:				
Investment earnings	8	3,267	18	3,293
Less investment expenses	(1)	—	(3)	(4)
Net investment income	7	3,267	15	3,289
Total additions	22,553	108,914	19	131,486
Deductions:				
Payments in accordance with trust arrangements	47,793	113,276	—	161,069
Total deductions	47,793	113,276	—	161,069
Change in net assets	(25,240)	(4,362)	19	(29,583)
Net assets — July 1	905,458	166,021	415	1,071,894
Net assets — June 30	$ 880,218	$ 161,659	$ 434	$ 1,042,311

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AGENCY FUNDS

Agency funds account for resources held by the State in a purely custodial capacity for individuals, private organizations, or other governments.

The following activities are included in the agency funds:

Local Sales Tax Collections
Clerks of Court
Intra-Entity Investment Fund Deposits
Insurers in Receivership
Departmental Funds

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES AGENCY FUNDS

For the Fiscal Year Ended June 30, 2009

(Dollars in Thousands)

	Balance, July 1, 2008	Additions	Deductions	Balance, June 30, 2009
Local Sales Tax Collections				
Assets				
Cash and cash equivalents	$ 472,810	$ 2,437,448	$ (2,541,191)	$ 369,067
Receivables:				
Taxes receivable	136,400	104,200	(136,400)	104,200
Due from other funds	14,474	15,818	(14,474)	15,818
Total Assets	$ 623,684	$ 2,557,466	$ (2,692,065)	$ 489,085
Liabilities				
Accounts payable and accrued liabilities:				
Intergovernmental payable	$ 623,684	$ 2,557,466	$ (2,692,065)	$ 489,085
Total Liabilities	$ 623,684	$ 2,557,466	$ (2,692,065)	$ 489,085
Clerks of Court				
Assets				
Cash and cash equivalents	$ 85,841	$ 1,473,954	$ (1,476,379)	$ 83,416
Receivables:				
Accounts receivable	610	5,930	(5,888)	652
Sureties	93,286	44,562	(52,916)	84,932
Total Assets	$ 179,737	$ 1,524,446	$ (1,535,183)	$ 169,000
Liabilities				
Accounts payable and accrued liabilities:				
Intergovernmental payable	$ 5,767	$ 118,374	$ (118,154)	$ 5,987
Funds held for others	173,970	464,141	(475,098)	163,013
Total Liabilities	$ 179,737	$ 582,515	$ (593,252)	$ 169,000
Intra-Entity Investment Fund Deposits				
Assets				
Cash and cash equivalents	$ 2,703,541	$ 111,115	$ —	$ 2,814,656
Investments:				
State Treasurer investment pool	44,163	1,580	—	45,743
Securities lending collateral	1,741,295	—	(653,872)	1,087,423
Total Assets	$ 4,488,999	$ 112,695	$ (653,872)	$ 3,947,822
Liabilities				
Obligations under securities lending	$ 1,741,295	$ —	$ (653,872)	$ 1,087,423
Funds held for others	2,747,704	112,695	—	2,860,399
Total Liabilities	$ 4,488,999	$ 112,695	$ (653,872)	$ 3,947,822
Insurers in Receivership				
Assets				
Cash and cash equivalents	$ 52,982	$ 51,041	$ —	$ 104,023
Investments:				
Corporate bonds	45,893	—	(39,341)	6,552
Corporate stocks	1,011	—	(1)	1,010
Receivables:				
Accounts receivable	14,829	146	—	14,975
Total Assets	$ 114,715	$ 51,187	$ (39,342)	$ 126,560
Liabilities				
Funds held for others	$ 114,715	$ 51,187	$ (39,342)	$ 126,560
Total Liabilities	$ 114,715	$ 51,187	$ (39,342)	$ 126,560

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES AGENCY FUNDS

For the Fiscal Year Ended June 30, 2009

Exhibit F-3

(Dollars in Thousands)

	Balance, July 1, 2008	Additions	Deductions	Balance, June 30, 2009
Departmental Funds				
Assets				
Cash and cash equivalents	$ 34,764	$ 1,102,218	$ (1,102,529)	$ 34,453
Investments:				
Certificates of deposit	392	—	—	392
Securities lending collateral	15,149	—	(6,315)	8,834
Receivables:				
Accounts receivable	21	13	(15)	19
Interest receivable	1	—	(1)	—
Due from other funds	203	—	(156)	47
Total Assets	$ 50,530	$ 1,102,231	$ (1,109,016)	$ 43,745
Liabilities				
Accounts payable and accrued liabilities:				
Accounts payable	$ 595	$ 8,884	$ (8,818)	$ 661
Intergovernmental payable	6,147	168,544	(168,544)	6,147
Obligations under securities lending	15,149	—	(6,315)	8,834
Deposits payable	1,821	7,520	(6,649)	2,692
Funds held for others	26,818	114,283	(115,690)	25,411
Total Liabilities	$ 50,530	$ 299,231	$ (306,016)	$ 43,745
Total Agency Funds				
Assets				
Cash and cash equivalents	$ 3,349,938	$ 5,175,776	$ (5,120,099)	$ 3,405,615
Investments:				
Corporate bonds	45,893	—	(39,341)	6,552
Corporate stocks	1,011	—	(1)	1,010
Certificates of deposit	392	—	—	392
State Treasurer investment pool	44,163	1,580	—	45,743
Securities lending collateral	1,756,444	—	(660,187)	1,096,257
Receivables:				
Taxes receivable	136,400	104,200	(136,400)	104,200
Accounts receivable	15,460	6,089	(5,903)	15,646
Interest receivable	1	—	(1)	—
Due from other funds	14,677	15,818	(14,630)	15,865
Sureties	93,286	44,562	(52,916)	84,932
Total Assets	$ 5,457,665	$ 5,348,025	$ (6,029,478)	$ 4,776,212
Liabilities				
Accounts payable and accrued liabilities:				
Accounts payable	$ 595	$ 8,884	$ (8,818)	$ 661
Intergovernmental payable	635,598	2,844,384	(2,978,763)	501,219
Obligations under securities lending	1,756,444	—	(660,187)	1,096,257
Deposits payable	1,821	7,520	(6,649)	2,692
Funds held for others	3,063,207	742,306	(630,130)	3,175,383
Total Liabilities	$ 5,457,665	$ 3,603,094	$ (4,284,547)	$ 4,776,212

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COMPONENT UNITS

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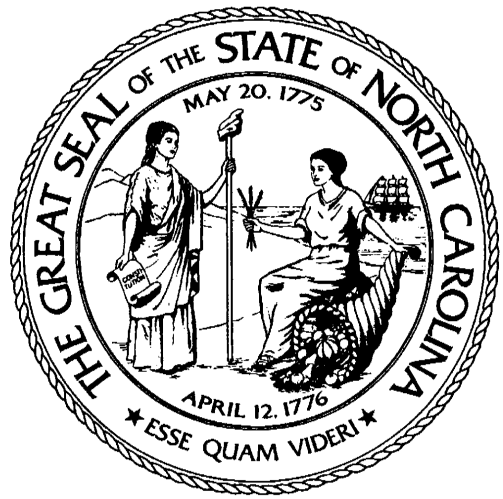

NONMAJOR COMPONENT UNITS – DISCRETELY PRESENTED

Component units are legally separate entities for which the State is financially accountable. Accountability is defined as the State's substantive appointment of a majority of the component unit's governing board. Furthermore, the State must be able to impose its will upon the component unit or there must be a possibility that the component unit may provide specific benefits to, or impose specific financial burdens on the State. The State has applied the criteria outlined in GASB Statement No. 14, The Financial Reporting Entity, in determining financial accountability. These component units are included in the financial reporting entity because of the significance of their operational or financial relationships with the State.

Nonmajor component units are comprised of the following entities:

N.C. State Ports Authority
N.C. Agricultural Finance Authority
N.C. Global TransPark Authority
N.C. Partnership for Children, Inc.
Rural Economic Development Center
Regional Economic Development Commissions
North Carolina Railroad Company
N.C. Turnpike Authority
N.C. Health Insurance Risk Pool

COMBINING STATEMENT OF NET ASSETS
NONMAJOR COMPONENT UNITS

June 30, 2009
(Dollars in Thousands)

	N.C. State Ports Authority	N.C. Agricultural Finance Authority	N.C. Global TransPark Authority	N.C. Partnership for Children, Inc.	Rural Economic Development Center	Regional Economic Development Commissions
Assets						
Cash and cash equivalents	$ 509	$ 8,985	$ 9,665	$ 265	$ 37,309	$ 1,832
Investments	10,422	—	—	2,182	200,034	1,110
Receivables, net	6,569	142	298	1,894	6,047	323
Due from component units	—	—	—	—	1,100	119
Due from primary government	—	—	—	—	—	—
Inventories	727	1	—	—	67	12
Prepaid items	196	—	—	81	—	36
Notes receivable, net	—	8,854	—	—	2,728	300
Deferred charges	625	—	—	—	—	—
Restricted/designated cash and cash equiv	1,377	—	54,168	—	—	—
Restricted investments	2	—	156	2,319	—	—
Capital assets-nondepreciable	86,487	—	92,004	—	—	67
Capital assets-depreciable, net	221,896	39	56,880	176	3,848	912
Total Assets	328,810	18,021	213,171	6,917	251,133	4,711
Liabilities						
Accounts payable and accrued liabilities	3,047	142	19,954	922	1,239	64
Interest payable	1	—	81	—	—	—
Due to primary government	11	1	14,449	—	6	—
Unearned revenue	42	—	12	22	805	238
Advance from primary government	—	—	21,742	—	—	—
Deposits payable	—	—	3	—	—	—
Funds held for others	—	—	22	68	—	—
Long-term liabilities:						
Due within one year	1,649	2	87	7	24	40
Due in more than one year	96,607	21	4,843	202	124	—
Total Liabilities	101,357	166	61,193	1,221	2,198	342
Net Assets						
Invested in capital assets, net of related debt	211,294	39	122,454	176	3,824	979
Restricted for:						
Expendable:						
Health and human services	—	—	—	3,281	—	—
Economic development	11,015	—	54,167	—	238,237	—
Transportation	—	—	—	—	—	—
Unrestricted	5,144	17,816	(24,643)	2,239	6,874	3,390
Total Net Assets	$ 227,453	$ 17,855	$ 151,978	$ 5,696	$ 248,935	$ 4,369

Exhibit G-1

North Carolina Railroad Company	N.C. Turnpike Authority	N.C. Health Insurance Risk Pool	Total
$ 2,193	$ 902	$ 19,516	$ 81,176
—	—	—	213,748
395	850	154	16,672
—	—	—	1,219
—	—	5,000	5,000
—	—	—	807
47	—	18	378
—	—	—	11,882
—	—	—	625
36,598	—	—	92,143
—	25,000	—	27,477
17,448	42,530	—	238,536
62,492	52	10	346,305
119,173	69,334	24,698	1,035,968
1,866	3,445	1,602	32,281
—	—	—	82
—	—	—	14,467
—	—	503	1,622
—	14,974	—	36,716
85	—	—	88
—	—	—	90
—	16	—	1,825
—	148	—	101,945
1,951	18,583	2,105	189,116
79,940	42,582	10	461,298
—	—	—	3,281
36,579	—	—	339,998
—	25,000	—	25,000
703	(16,831)	22,583	17,275
$ 117,222	$ 50,751	$ 22,593	$ 846,852

COMBINING STATEMENT OF ACTIVITIES
NONMAJOR COMPONENT UNITS

For the Fiscal Year Ended June 30, 2009

(Dollars in Thousands)

	N.C. State Ports Authority	N.C. Agricultural Finance Authority	N.C. Global TransPark Authority	N.C. Partnership for Children, Inc.	Rural Economic Development Center	Regional Economic Development Commissions
Total expenses	$ 39,903	$ 859	$ 6,640	$ 127,857	$ 54,441	$ 4,512
Program revenues:						
Charges for services	34,559	473	1,465	—	—	274
Operating grants and contributions:						
State aid - program	—	—	—	—	20,896	—
Other operating grants and contributions	366	390	400	1,038	8,801	846
Capital grants and contributions:						
State capital aid	6,735	—	—	—	—	—
Other capital grants and contributions	700	—	2,852	—	—	—
Net program (expense) revenue	2,457	4	(1,923)	(126,819)	(24,744)	(3,392)
Non-tax general revenues:						
State aid - general	—	—	1,600	125,194	72,524	3,308
Miscellaneous	7	—	1	272	760	246
Total non-tax general revenues	7	—	1,601	125,466	73,284	3,554
Change in net assets	2,464	4	(322)	(1,353)	48,540	162
Net assets — July 1, as restated	224,989	17,851	152,300	7,049	200,395	4,207
Net assets — June 30	$ 227,453	$ 17,855	$ 151,978	$ 5,696	$ 248,935	$ 4,369

Exhibit G-2

North Carolina Railroad Company	N.C. Turnpike Authority	N.C. Health Insurance Risk Pool	Total
$ 12,004	$ 3,846	$ 4,038	$ 254,100
15,267	—	2,663	54,701
—	—	—	20,896
1,068	9	212	13,130
—	24,192	—	30,927
—	17,081	—	20,633
4,331	37,436	(1,163)	(113,813)
—	—	22,872	225,498
236	—	—	1,522
236	—	22,872	227,020
4,567	37,436	21,709	113,207
112,655	13,315	884	733,645
$ 117,222	$ 50,751	$ 22,593	$ 846,852

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STATISTICAL SECTION

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Index to Statistical Section

This part of the State of North Carolina's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the State's overall financial health.

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These schedules contain trend information to help the reader understand how the State's financial performance has changed over time.

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Revenue Capacity 274

These schedules contain information to help the reader assess the factors affecting the State's ability to generate its individual income and sales taxes.

Personal Income by Industry - Fiscal Years 1998-2007
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and Individual Income Tax Rates - Calendar Years 2000-2009
Taxable Sales by Business Group - Fiscal Years 2006-2009
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These schedules present information to help the reader assess the affordability of the State's current levels of outstanding debt and the State's ability to issue additional debt in the future.

Ratios of Outstanding Debt by Type - Fiscal Years 2000-2009
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Schedule of General Obligation Bonds Payable - June 30, 2009
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These schedules offer demographic and economic indicators to help the reader understand the environment within which the State's financial activities take place.

Schedule of Demographic Data
Principal Employers - Fiscal Years 2001 and 2009
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These schedules contain service and infrastructure data to help the reader understand how the information in the State's financial report relates to the services the State provides and the activities it performs.

Operating Indicators by Function - Fiscal Years 2002-2009
Capital Asset Statistics by Function - Fiscal Years 2002-2009
Ten Year Claims Development Information - Public School Insurance Fund - Fiscal Years 2000-2009

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial report for the relevant year.

NET ASSETS BY COMPONENT

For the Fiscal Years 2002-2009

(Dollars in Thousands)

	2009	2008	2007	2006	2005
Governmental activities:					
Invested in capital assets, net of related debt..	$ 32,348,957	$ 30,984,578	$ 29,715,168	$ 28,052,926	$ 26,434,617
Restricted...	715,546	877,915	1,094,352	890,602	1,314,397
Unrestricted..	(4,258,611)	(1,856,140)	(993,478)	(1,310,486)	(3,839,972)
Total governmental activities net assets [1].........	$ 28,805,892	$ 30,006,353	$ 29,816,042	$ 27,633,042	$ 23,909,042
Business-type activities:					
Invested in capital assets................................	$ 30,612	$ 32,063	$ 26,673	$ 26,975	$ 44,007
Restricted...	1,003,613	1,773,018	1,612,943	1,286,477	970,615
Unrestricted..	(202,620)	91,219	74,860	75,108	76,988
Total business-type activities net assets............	$ 831,605	$ 1,896,300	$ 1,714,476	$ 1,388,560	$ 1,091,610
Primary government:					
Invested in capital assets, net of related debt..	$ 32,379,569	$ 31,016,641	$ 29,741,841	$ 28,079,901	$ 26,478,624
Restricted...	1,719,159	2,650,933	2,707,295	2,177,079	2,285,012
Unrestricted..	(4,461,231)	(1,764,921)	(918,618)	(1,235,378)	(3,762,984)
Total primary government net assets.................	$ 29,637,497	$ 31,902,653	$ 31,530,518	$ 29,021,602	$ 25,000,652

Note: The State of North Carolina did not begin reporting government-wide statements until implementation of GASB Statement 34 in 2002.

[1] For fiscal year ended June 30, 2006, the State changed its methodology for applying GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions to individual income taxes. The State now reports an estimate of underpayments of individual income taxes. The State has also changed its method to estimate overpayments of individual income taxes (i.e., income tax refunds payable and applied refunds). For the purpose of reporting underpayments, the availability period for General Fund individual income taxes was extended from thirty-one days to twelve months after year-end. Where underpayments exceed overpayments, individual income tax revenues are recognized to the extent of estimated overpayments (i.e., income tax refunds payable and applied refunds).

Table 1

2004	2003	2002
$ 24,706,355	$ 23,449,373	$ 22,025,039
1,474,405	1,071,626	1,604,772
(3,199,354)	(2,210,477)	(1,615,102)
$ 22,981,406	$ 22,310,522	$ 22,014,709
$ 40,277	$ 38,450	$ 38,267
665,547	863,426	797,437
48,295	56,448	50,479
$ 754,119	$ 958,324	$ 886,183
$ 24,746,632	$ 23,487,823	$ 22,063,306
2,139,952	1,935,052	2,402,209
(3,151,059)	(2,154,029)	(1,564,623)
$ 23,735,525	$ 23,268,846	$ 22,900,892

CHANGES IN NET ASSETS

For the Fiscal Years 2002-2009
(Dollars in Thousands)

		2009	2008	2007	2006	2005
Expenses						
Governmental activities:						
General government		$ 1,329,539	$ 1,232,088	$ 1,264,132	$ 1,039,513	$ 917,209
Primary and secondary education		10,098,851	10,631,920	9,126,169	8,215,445	7,699,208
Higher education		3,951,862	4,207,410	4,500,010	3,472,024	3,576,384
Health and human services		16,179,227	14,951,585	14,117,426	13,491,119	13,375,794
Economic development		637,876	746,471	624,106	647,434	625,561
Environment and natural resources		722,722	753,909	672,726	676,049	570,241
Public safety, corrections, and regulation		2,742,952	2,627,007	2,465,974	2,304,900	2,125,385
Transportation		1,970,408	1,941,207	2,019,942	1,781,865	1,795,490
Agriculture		110,314	119,297	88,970	112,467	81,628
Interest on long-term debt		289,211	304,020	273,123	264,287	249,433
Total governmental activities expenses		38,032,962	37,514,914	35,152,578	32,005,103	31,016,333
Business-type activities:						
Unemployment Compensation		3,255,448	1,002,866	864,981	849,945	824,934
N.C. State Lottery	[2]	877,403	712,718	559,373	153,125	—
EPA Revolving Loan	[4]	7,868	12,454	14,228	11,414	7,170
Regulatory commissions	[3]	37,644	34,791	31,144	28,526	25,974
Insurance programs		14,970	17,556	23,892	16,051	13,580
North Carolina State Fair		14,053	12,828	11,433	10,497	10,759
Other business-type activities		6,583	6,364	5,686	10,255	9,753
Total business-type activities expenses		4,213,969	1,799,577	1,510,737	1,079,813	892,170
Total primary government expenses		$ 42,246,931	$ 39,314,491	$ 36,663,315	$ 33,084,916	$ 31,908,503
Program Revenues:						
Governmental activities:						
Charges for services:						
Transportation		$ 740,353	$ 777,059	$ 782,405	$ 725,311	$ 588,357
Public safety, corrections, and regulation		530,449	501,837	429,824	411,188	378,059
General government		329,551	365,920	480,378	339,053	202,514
Other activities		536,920	536,419	467,769	512,449	503,552
Operating grants and contributions		14,123,077	12,301,356	12,026,012	11,503,844	11,380,864
Capital grants and contributions		1,035,742	826,646	758,910	914,090	1,011,451
Total governmental activities program revenues		17,296,092	15,309,237	14,945,298	14,405,935	14,064,797
Business-type activities:						
Charges for services:						
Unemployment Compensation		1,076,294	1,091,856	1,099,959	1,101,357	1,062,549
N.C. State Lottery	[2]	1,288,102	1,053,131	866,195	216,906	—
EPA Revolving Loan	[4]	17,370	17,297	16,400	15,237	14,078
Regulatory commissions	[3]	33,982	37,163	29,347	33,550	32,223
Insurance programs		17,208	16,991	13,901	14,860	15,993
North Carolina State Fair		12,520	15,029	11,617	12,581	12,227
Other business-type activities		6,545	6,498	5,887	7,973	8,906
Operating grants and contributions		1,120,736	83,695	106,000	64,085	54,760
Capital grants and contributions		125	6,589	142	258	452
Total business-type activities program revenues		3,572,882	2,328,249	2,149,448	1,466,807	1,201,188
Total primary government program revenues		$ 20,868,974	$ 17,637,486	$ 17,094,746	$ 15,872,742	$ 15,265,985
Net (expense) revenue						
Governmental activities		$ (20,736,870)	$ (22,205,677)	$ (20,207,280)	$ (17,599,168)	$ (16,951,536)
Business-type activities		(641,087)	528,672	638,711	386,994	309,018
Total primary government net expense		$ (21,377,957)	$ (21,677,005)	$ (19,568,569)	$ (17,212,174)	$ (16,642,518)

Table 2

2004	2003	2002
$ 807,248	$ 773,835	$ 874,208
7,223,766	6,865,921	6,802,979
3,140,794	2,814,375	2,519,703
11,729,904	10,614,411	10,376,807
536,055	489,062	469,102
599,575	537,540	627,369
2,093,404	2,034,225	2,109,487
1,870,578	1,639,866	1,530,870
82,394	73,972	121,729
191,228	151,258	148,595
28,274,946	25,994,465	25,580,849
1,389,266	1,603,796	1,336,718
—	—	—
5,342	4,266	—
—	—	—
25,237	13,752	—
8,956	8,257	—
8,821	8,748	25,431
1,437,622	1,638,819	1,362,149
$ 29,712,568	$ 27,633,284	$ 26,942,998
$ 553,229	$ 526,609	$ 524,198
371,625	355,793	327,457
211,648	162,311	184,982
368,588	306,036	276,322
10,108,124	9,043,064	8,787,254
884,345	527,498	714,084
12,497,559	10,921,311	10,814,297
878,722	646,273	433,364
—	—	—
13,876	12,550	—
—	—	—
13,259	12,076	—
11,961	8,343	—
9,073	9,275	27,477
305,053	504,550	438,760
892	1,241	1,121
1,232,836	1,194,308	900,722
$ 13,730,395	$ 12,115,619	$ 11,715,019
$ (15,777,387)	$ (15,073,154)	$ (14,766,552)
(204,786)	(444,511)	(461,427)
$ (15,982,173)	$ (15,517,665)	$ (15,227,979)

Continued

CHANGES IN NET ASSETS

For the Fiscal Years 2002-2009
(Dollars in Thousands)

		2009	2008	2007	2006	2005
General Revenues and Other Changes in Net Assets						
Governmental activities:						
Taxes						
Individual income tax	[1]	$ 8,661,565	$ 10,676,156	$ 10,739,562	$ 9,336,745	$ 8,244,275
Corporate income tax		997,206	1,357,670	1,466,148	1,306,193	1,143,458
Sales and use tax		4,911,656	5,159,453	5,108,456	5,033,040	4,621,098
Gasoline tax		1,523,496	1,579,847	1,601,764	1,514,626	1,354,699
Franchise tax		799,113	738,741	671,151	628,029	613,033
Highway use tax		440,749	566,132	607,511	577,237	580,118
Insurance tax		500,438	505,936	487,081	442,297	442,228
Beverage tax		263,553	258,193	245,990	233,315	220,782
Inheritance tax		103,811	158,178	162,746	133,158	135,107
Tobacco products tax	[5]	242,071	249,664	241,687	—	—
Other tax		316,819	339,109	330,888	482,552	306,991
Tobacco settlement		175,838	168,583	144,075	140,969	148,800
Federal grants not restricted to specific programs		—	—	—	—	—
Unrestricted investment earnings		106,738	238,239	211,663	123,170	78,546
Miscellaneous		66,500	49,345	47,015	37,248	53,488
Contributions to permanent funds		3,248	3,894	3,928	4,674	2,288
Transfers		423,608	346,848	312,810	67,978	(11,620)
Total governmental activities		19,536,409	22,395,988	22,382,475	20,061,231	17,933,291
Business-type activities:						
Miscellaneous		—	—	15	4	79
Transfers		(423,608)	(346,848)	(312,810)	(67,978)	11,620
Total business-type activities		(423,608)	(346,848)	(312,795)	(67,974)	11,699
Total primary government		$ 19,112,801	$ 22,049,140	$ 22,069,680	$ 19,993,257	$ 17,944,990
Change in Net Assets						
Governmental activities		$ (1,200,461)	$ 190,311	$ 2,175,195	$ 2,462,063	$ 981,755
Business-type activities		(1,064,695)	181,824	325,916	319,020	320,717
Total primary government		$ (2,265,156)	$ 372,135	$ 2,501,111	$ 2,781,083	$ 1,302,472

Note: The State of North Carolina did not begin reporting government-wide statements until implementation of GASB Statement 34 in 2002.

[1] For fiscal year ended June 30, 2006, the State changed its methodology for applying GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions to individual income taxes. The State now reports an estimate of underpayments of individual income taxes. The State has also changed its method to estimate overpayments of individual income taxes (i.e., income tax refunds payable and applied refunds). For the purpose of reporting underpayments, the availability period for General Fund individual income taxes was extended from thirty-one days to twelve months after year-end. Where underpayments exceed overpayments, individual income tax revenues are recognized to the extent of estimated overpayments (i.e., income tax refunds payable and applied refunds).

[2] N.C. State Lottery established in 2006.

[3] Prior to 2005 Regulatory commissions were classified as Special Revenue Funds.

[4] Prior to 2003 EPA Revolving Loan was classified as Special Revenue Funds.

[5] Prior to 2007 tobacco products tax was included in other tax. A significant increase in the tobacco products tax rate determined the need to present tobacco products tax separately beginning 2007.

Table 2

2004	2003	2002
$ 7,407,455	$ 7,122,099	$ 7,234,431
760,180	921,611	599,382
4,293,040	4,029,403	3,778,873
1,276,627	1,154,986	1,212,788
560,708	584,584	590,992
578,346	552,759	555,320
432,975	417,126	347,893
213,271	198,848	200,593
128,352	112,150	106,491
—	—	—
313,985	289,261	278,740
147,224	173,256	175,836
136,859	136,859	139,350
77,225	103,987	—
62,601	41,137	57,484
2,068	1,806	2,019
(302)	4,918	47,957
16,390,614	15,844,790	15,328,149
3	—	—
302	(4,918)	(47,957)
305	(4,918)	(47,957)
$ 16,390,919	$ 15,839,872	$ 15,280,192
$ 613,227	$ 771,636	$ 561,597
(204,481)	(449,429)	(509,384)
$ 408,746	$ 322,207	$ 52,213

FUND BALANCES OF GOVERNMENTAL FUNDS

For the Fiscal Years 2002-2009

(Dollars in Thousands)

	2009	2008	2007	2006	2005	2004
General Fund						
Reserved	$ 189,288	$ 172,909	$ 208,932	$ 155,948	$ 172,633	$ 197,448
Unreserved	(965,152)	1,505,230	2,397,786	1,810,452	(251,442)	(393,735)
Total General Fund [1]	$ (775,864)	$ 1,678,139	$ 2,606,718	$ 1,966,400	$ (78,809)	$ (196,287)
All Other Governmental Funds						
Reserved	$ 1,211,182	$ 1,182,723	$ 1,014,757	$ 951,701	$ 911,966	$ 847,174
Unreserved, reported in:						
Special revenue funds	2,453,235	2,517,529	2,524,643	2,204,146	2,170,533	2,260,374
Capital projects funds	(2,738)	280,939	224,991	115,060	44,237	110,395
Permanent funds	3,425	2,312	1,598	1,518	2,645	2,380
Total all other governmental funds	$ 3,665,104	$ 3,983,503	$ 3,765,989	$ 3,272,425	$ 3,129,381	$ 3,220,323

Note: Due to changes in the State's fund structure initiated when GASB Statement 34 was implemented, the changes in fund balance information is not available before 2002.

[1] For fiscal year ended June 30, 2006, the State changed its methodology for applying GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions to individual income taxes. The State now reports an estimate of underpayments of individual income taxes. The State has also changed its method to estimate overpayments of individual income taxes (i.e., income tax refunds payable and applied refunds). For the purpose of reporting underpayments, the availability period for General Fund individual income taxes was extended from thirty-one days to twelve months after year-end. Where underpayments exceed overpayments, individual income tax revenues are recognized to the extent of estimated overpayments (i.e., income tax refunds payable and applied refunds).

Table 3

2003	2002
$ 166,172	$ 227,767
(333,127)	(576,318)
$ (166,955)	$ (348,551)
$ 672,653	$ 1,099,039
2,041,905	2,254,227
84,677	73,751
6,903	226
$ 2,806,138	$ 3,427,243

CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS

For the Fiscal Years 2000-2009

(Dollars in Thousands)

		2009	2008	2007	2006	2005
Revenues						
Taxes	[3]	$ 18,752,674	$ 21,583,521	$ 21,660,719	$ 19,848,465	$ 17,618,730
Federal funds		13,387,611	12,096,354	11,519,927	11,315,722	11,287,454
Local funds		349,303	527,325	725,542	610,501	767,067
Investment earnings		213,014	620,829	669,297	384,014	292,406
Interest earnings on loans		4,989	5,156	5,639	5,405	5,664
Sales and services		279,025	285,848	264,081	260,538	235,894
Rental and lease of property		25,398	27,737	28,722	25,982	38,585
Fees, licenses and fines		1,604,291	1,593,893	1,525,928	1,405,569	1,218,431
Tobacco settlement		175,187	159,954	142,825	136,453	148,641
Contributions, gifts, and grants		137,537	140,575	155,958	118,936	108,450
Funds escheated		27,399	74,743	214,500	108,075	49,684
Federal funds for fiscal relief		—	—	—	—	—
Federal recovery funds		1,164,674	N/A	N/A	N/A	N/A
Miscellaneous		184,839	167,449	122,161	161,052	146,529
Total revenues	[1]	36,305,941	37,283,384	37,035,299	34,380,712	31,917,535
Expenditures						
Current:						
General government		1,298,105	1,167,090	1,102,512	963,899	754,175
Education	[2]	N/A	N/A	N/A	N/A	N/A
Primary and secondary education	[2]	10,111,797	9,879,602	9,087,905	8,211,998	7,713,265
Higher education	[2]	3,951,689	4,207,164	4,405,767	3,471,604	3,576,766
Health and human services		16,222,049	14,918,068	14,203,474	13,318,071	13,376,364
Economic development		635,850	747,728	623,038	643,510	622,000
Environment and natural resources		699,273	689,119	662,296	626,442	579,853
Public safety, corrections, and regulation		2,681,833	2,629,567	2,467,763	2,291,596	2,123,837
Transportation		3,266,494	3,473,718	3,296,301	3,219,549	3,511,161
Agriculture		111,506	117,380	92,062	110,626	82,508
Retiree tax judgements		—	—	—	—	—
Capital outlay		369,326	346,764	451,716	270,882	313,932
Debt service:						
Principal retirement		474,323	427,550	417,807	367,946	303,818
Interest and fees		326,287	329,813	306,410	288,088	241,936
Debt issuance costs		3,031	2,141	2,456	1,645	7,454
Total expenditures	[1]	40,151,563	38,935,704	37,119,507	33,785,856	33,207,069
Excess revenues over (under) expenditures		(3,845,622)	(1,652,320)	(84,208)	594,856	(1,289,534)
Other Financing Sources (Uses)						
Bonds issued		—	—	502,745	370,000	1,075,140
Special Indebtedness issued		600,000	275,000	300,000	—	188,385
GARVEE bonds issued		—	287,565	—	—	—
Refunding bonds issued		—	—	84,385	—	959,665
Other debt issued		1,533	7,425	2,897	30,688	12,686
Premium on debt issued		31,371	21,843	40,867	16,338	210,116
Discount on debt issued		—	—	—	—	—
Payments to refunded bond escrow agent		—	—	(85,519)	—	(1,059,663)
Capital leases		—	—	799	26,745	212
Sale of capital assets		13,079	29,570	15,898	20,131	14,674
Insurance recoveries		8,568	7,317	5,700	6,537	—
Transfers in		2,727,741	2,567,141	2,340,937	1,784,222	1,754,448
Transfers out		(2,309,072)	(2,223,438)	(2,030,162)	(1,718,585)	(1,760,801)
Total other financing sources (uses)		1,073,220	972,423	1,178,547	536,076	1,394,862
Net change in fund balances		$ (2,772,402)	$ (679,897)	$ 1,094,339	$ 1,130,932	$ 105,328
Debt service as a percentage of noncapital expenditures		2.12%	2.07%	2.06%	2.08%	1.78%

All governmental fund types consist of the General Fund, special revenue funds, capital projects funds, and permanent funds. Years prior to 2002 do not include permanent funds.

Table 4

2004	2003	2002	2001	2000
$ 15,961,629	$ 15,394,024	$ 14,894,796	$ 15,147,177	$ 14,569,104
10,089,075	8,672,065	8,459,344	7,924,893	7,253,282
657,954	586,638	702,076	760,607	511,350
160,846	320,023	335,082	487,824	500,854
5,801	7,165	47,421	5,789	5,356
210,161	184,739	194,548	97,686	94,751
27,848	22,175	24,359	43,046	25,059
1,035,303	915,380	864,912	896,435	1,046,042
146,452	173,256	175,836	140,272	—
150,731	90,486	93,802	122,871	79,554
55,330	41,369	90,181	N/A	N/A
136,859	136,859	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A
196,937	147,777	145,887	165,349	147,816
28,834,926	26,691,956	26,028,244	25,791,949	24,233,168
711,327	691,267	809,398	1,035,440	1,229,513
N/A	N/A	N/A	6,964,812	6,674,757
7,223,143	6,863,338	6,802,662	N/A	N/A
3,140,698	2,813,629	2,519,624	N/A	N/A
11,722,721	10,583,184	10,398,386	9,617,423	8,411,025
532,674	484,298	498,644	453,931	428,819
581,726	534,405	574,871	459,170	371,238
2,073,338	1,998,576	2,070,166	1,948,423	1,999,894
3,389,042	2,967,551	2,992,187	2,820,290	2,598,605
81,488	81,857	122,337	88,623	143,936
—	—	—	58,679	440,000
385,506	104,379	126,011	155,228	159,241
235,792	168,009	180,398	151,120	141,934
185,350	152,110	147,580	130,343	122,943
4,830	1,410	734	N/A	N/A
30,267,635	27,444,013	27,242,998	23,883,482	22,721,905
(1,432,709)	(752,057)	(1,214,754)	1,908,467	1,511,263
1,377,560	711,600	605,000	680,000	200,000
283,955	17,500	—	—	—
—	—	—	—	—
326,710	556,350	—	—	—
17,597	—	4,832	—	—
137,256	25,017	14,733	—	—
—	(254)	—	—	—
(346,915)	(558,444)	—	—	—
—	150	216	—	339
10,105	8,882	12,570	—	—
—	—	—	—	—
1,566,520	1,587,388	1,478,308	1,415,317	1,573,875
(1,557,208)	(1,583,075)	(1,414,418)	(1,427,607)	(1,576,980)
1,815,580	765,114	701,241	667,710	197,234
$ 382,871	$ 13,057	$ (513,513)	$ 2,576,177	$ 1,708,497
1.51%	1.25%	1.30%	1.26%	1.24%

[1] Fiscal years prior to 2001 do not reflect the implementation of GASB Statement No. 33, *Accounting for NonexchangeTransactions*. This statement provided new rules on the timing of recognition of nonexchange transactions involving financial or capital resources.

[2] Fiscal years prior to 2002 do not reflect the implementation of GASB - Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (as amended by Statement No. 37),
This statement establishes new financial reporting requirements for state and local governments throughout the United States.

[3] For fiscal year ended June 30, 2006, the State changed its methodology for applying GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions to individual income taxes. The State now reports an estimate of underpayments of individual income taxes. The State has also changed its method to estimate overpayments of individual income taxes (i.e., income tax refunds payable and applied refunds). For the purpose of reporting underpayments, the availability period for General Fund individual income taxes was extended from thirty-one days to twelve months after year-end. Where underpayments exceed overpayments, individual income tax revenues are recognized to the extent of estimated overpayments (i.e., income tax refunds payable and applied refunds).

SCHEDULE OF REVENUES BY SOURCE — GENERAL FUND

For the Fiscal Years 2000-2009

(Dollars in Thousands)

		2009	2008	2007	2006	2005
TAX REVENUES						
Individual income tax	[2]	$ 8,658,635	$ 10,672,362	$ 10,737,494	$ 9,493,714	$ 8,206,026
Corporate income tax		941,509	1,265,654	1,357,454	1,208,356	1,065,374
Sales and use tax		4,872,318	5,125,674	5,078,997	5,007,567	4,587,542
Franchise tax		797,079	739,947	669,235	628,665	613,093
Beverage tax		262,678	257,393	245,430	232,987	220,782
Insurance tax		483,756	492,699	475,546	431,729	431,664
Piped natural gas		59,490	58,413	61,345	58,397	60,739
Intangible tax		—	—	—	—	—
Inheritance tax		104,266	158,789	161,604	133,248	134,419
Soft drink tax		—	—	—	—	—
Tobacco products tax		242,071	249,664	241,687	187,566	43,361
License tax		37,716	55,293	48,137	46,035	44,219
Gift tax		12,294	17,361	15,669	16,251	18,924
Manufacturing tax		32,044	37,661	39,132	11,992	—
Other taxes		21,625	16,623	16,640	15,579	14,114
Total tax revenues		16,525,481	19,147,533	19,148,370	17,472,086	15,440,257
NON-TAX REVENUES						
Federal Funds:						
Departmental revenues		11,969,276	10,843,765	10,312,318	9,905,879	9,755,067
Federal funds for fiscal relief		—	—	—	—	—
Federal recovery funds		1,155,174	—	—	—	—
		13,124,450	10,843,765	10,312,318	9,905,879	9,755,067
Local Funds:						
Departmental revenues		304,270	486,536	665,532	574,300	731,368
Investment Earnings:						
Income from General Fund investments		103,703	234,478	208,955	122,405	75,669
Income from securities lending		19,739	143,487	216,072	133,098	48,463
Departmental revenues		4,788	7,829	8,059	7,357	8,539
Other investment earnings		3	39	66	44	14
		128,233	385,833	433,152	262,904	132,685
Interest Earnings on Loans:						
Departmental revenues		257	113	399	—	—
Sales and Services:						
Departmental revenues		104,925	102,307	94,664	94,994	85,592
Other non-tax revenues		143	138	171	184	168
		105,068	102,445	94,835	95,178	85,760
Rental and Lease of Property:						
Proceeds from rental and lease of property		83	98	41	57	4,304
Departmental revenues		8,773	7,908	8,392	7,885	7,072
		8,856	8,006	8,433	7,942	11,376
Fees, Licenses and Fines:						
Court fines and fees		190,995	198,520	159,583	158,646	142,798
Secretary of State service fees		64,202	62,035	58,046	55,976	46,975
Banking and investment fees		5,709	5,862	5,466	5,386	5,165
Self insurer fees (Industrial Commission)		15,230	14,791	14,292	14,269	14,128
Probation supervision fees		16,758	16,892	16,629	16,471	16,476
Department of Insurance fees		43,965	42,872	27,991	25,990	24,526
DWI service and restoration fees		9,310	9,441	8,782	8,420	8,398
Departmental revenues		184,791	164,813	160,006	157,024	200,452
Fines from tax collection activity		85,135	93,181	69,758	53,663	—
Other non-tax revenues		5,340	6,583	4,944	5,173	3,818
		621,435	614,990	525,497	501,018	462,736
Tobacco settlement						
Tobacco settlement		175,187	159,954	142,825	136,453	148,641
Contributions, Gifts and Grants:						
Departmental revenues		15,583	16,054	17,207	17,632	34,375
Other non-tax revenues		—	—	—	1	105
		15,583	16,054	17,207	17,633	34,480
Miscellaneous:						
Local sales and use tax administration		15,613	16,982	16,979	14,356	13,932
Sales tax refunds		1,906	3,303	4,124	3,014	10,253
Departmental revenues		119,097	106,517	56,733	113,171	84,927
Other non-tax revenue		22,220	1,566	1,508	1,302	1,253
		158,836	128,368	79,344	131,843	110,365
Total non-tax revenues		14,642,175	12,746,064	12,279,542	11,633,150	11,472,478
Total Revenues	[1], [2]	$ 31,167,656	$ 31,893,597	$ 31,427,912	$ 29,105,236	$ 26,912,735

Table 5

2004	2003	2002	2001	2000
$ 7,404,956	$ 7,126,655	$ 7,219,794	$ 7,605,542	$ 7,097,514
699,441	922,936	548,046	712,161	989,280
4,268,292	4,020,923	3,766,285	3,429,532	3,361,189
560,502	583,781	592,259	746,687	557,544
213,271	198,848	200,593	198,646	193,003
423,405	408,873	340,785	305,791	273,367
64,327	63,219	64,852	64,854	52,025
—	—	—	4	20
129,579	112,605	104,799	123,094	162,997
—	—	2	48	144
44,126	41,899	41,500	42,137	43,104
42,418	44,565	44,432	43,874	42,595
16,615	19,328	13,392	20,254	25,084
—	—	—	—	—
13,571	12,508	17,479	11,152	10,292
13,880,503	13,556,140	12,954,218	13,303,776	12,808,158
8,769,925	7,564,627	7,266,016	6,777,503	6,156,189
136,859	136,859	—	—	—
—	—	—	—	—
8,906,784	7,701,486	7,266,016	6,777,503	6,156,189
636,900	562,498	682,310	737,063	482,387
76,415	103,786	129,924	163,479	204,083
21,305	30,604	44,659	111,490	112,011
2,613	4,745	4,217	10,022	7,300
3	5	9,531	320	251
100,336	139,140	188,331	285,311	323,645
—	—	—	—	—
76,010	61,316	61,031	68,736	69,793
182	198	228	405	276
76,192	61,514	61,259	69,141	70,069
102	92	546	573	1,035
6,620	6,140	6,556	16,989	7,218
6,722	6,232	7,102	17,562	8,253
138,878	126,381	109,575	111,012	97,808
40,638	36,807	31,357	29,584	24,255
4,758	4,485	4,336	10,914	4,029
13,777	13,512	6,795	7,098	6,360
16,748	14,339	10,833	10,453	10,605
25,147	21,198	22,854	20,210	18,433
8,709	7,332	5,822	5,706	5,703
62,578	41,747	41,540	40,422	38,300
—	—	—	—	—
4,388	4,161	4,124	4,065	4,181
315,621	269,962	237,236	239,464	209,674
146,452	173,256	175,836	140,272	—
50,140	29,702	33,658	53,425	15,452
234	1	30	—	2
50,374	29,703	33,688	53,425	15,454
13,989	12,495	11,774	11,568	10,973
14,456	7,908	11,120	11,494	15,514
123,852	95,753	89,489	123,230	108,555
2,083	315	6,307	914	866
154,380	116,471	118,690	147,206	135,908
10,393,761	9,060,262	8,770,468	8,466,947	7,401,579
$ 24,274,264	$ 22,616,402	$ 21,724,686	$ 21,770,723	$ 20,209,737

[1] Fiscal years prior to 2001 do not reflect the implementation of GASB Statement No. 33, *Accounting for Nonexchange Transactions*. This statement provided new rules on the timing of recognition of nonexchange transactions involving financial or capital resources.

[2] For fiscal year ended June 30, 2006, the State changed its methodology for applying GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions to individual income taxes. The State now reports an estimate of underpayments of individual income taxes. The State has also changed its method to estimate overpayments of individual income taxes (i.e., income tax refunds payable and applied refunds). For the purpose of reporting underpayments, the availability period for General Fund individual income taxes was extended from thirty-one days to twelve months after year-end. Where underpayments exceed overpayments, individual income tax revenues are recognized to the extent of estimated overpayments (i.e., income tax refunds payable and applied refunds).

PERSONAL INCOME BY INDUSTRY

For the Fiscal Years 1998-2007

(Dollars in thousands)

		2007	2006	2005	2004	2003
Manufacturing		$ 35,074,507	$ 34,464,476	$ 33,194,318	$ 33,221,684	$ 32,744,219
Retail trade		15,562,783	14,836,334	14,289,552	13,316,848	12,967,684
Services		70,894,889	65,778,032	60,876,584	56,519,778	52,284,237
Agricultural, forestry, fishing, etc		667,698	653,740	634,071	595,402	610,273
Government		45,809,584	42,422,524	39,909,896	37,110,163	34,622,175
Construction		14,991,299	14,710,587	13,237,086	11,942,873	11,065,474
Wholesale trade		12,887,562	11,983,230	11,092,605	10,377,900	9,561,303
Transportation and warehousing		6,418,946	6,273,363	6,118,209	6,021,817	5,450,793
Finance and insurance		14,694,414	14,200,846	12,369,157	11,383,062	10,768,135
Mining		415,376	378,583	332,479	288,883	247,892
Utilities	[1]	1,490,700	1,416,887	1,392,911	1,455,518	1,316,184
Information	[1]	5,955,685	5,750,490	5,485,161	5,293,364	5,168,423
Real estate and rental and leasing		3,937,699	4,005,518	3,945,121	3,746,972	3,625,524
Total		$ 228,801,142	$ 216,874,610	$ 202,877,150	$ 191,274,264	$ 180,432,316
Average effective rate [2]:						
Individual income tax		4.7%	4.4%	4.0%	3.9%	3.9%

[1] 2002 is the first fiscal year data was collected for this industry.

[2] Average effective rate equals individual income tax revenues divided by personal income.

Source: Bureau of Economic Analysis(Data for 2008 & 2009 is not available.)

Table 6

2002	2001	2000	1999	1998
$ 32,957,483	$ 33,339,686	$ 35,305,549	$ 33,669,223	$ 32,650,010
12,770,117	12,587,584	14,265,654	13,517,581	12,414,512
50,615,389	48,236,817	34,278,925	31,337,093	28,119,353
600,946	618,682	907,049	827,266	738,696
32,293,906	30,616,692	29,435,566	27,538,020	26,140,579
11,039,949	11,565,880	8,799,938	8,300,149	7,592,861
9,033,833	8,588,296	9,641,533	9,108,928	8,511,319
5,428,763	5,747,625	5,073,577	4,808,932	4,542,317
10,132,069	9,440,396	9,343,795	8,469,976	7,742,498
240,364	278,288	212,489	206,714	201,577
1,275,067	—	—	—	—
5,138,686	—	—	—	—
3,304,984	3,268,078	1,264,710	1,180,757	1,083,707
$ 174,831,556	$ 164,288,024	$ 148,528,785	$ 138,964,639	$ 129,737,429
4.1%	4.6%	4.8%	4.7%	4.7%

Individual Income Tax Filers and Liability - Calendar Years 1998 and 2007
Individual Income Tax Rates - Calendar Years 2000-2009

Individual Income Tax Filers and Liability by Income Level

North Carolina Taxable Income	Calendar Year 2007 Number of Returns	% of Total	Tax Liability	% of Total	Calendar Year 1998 Number of Returns	% of Total	Tax Liability	% of Total
0 to $15,000....................	2,103,592	50.0%	$ 466,376,063	4.6%	1,897,659	54.1%	$ 476,572,511	7.8%
$15,001 to $25,000.........	562,977	13.4%	638,059,404	6.3%	512,056	14.6%	596,400,498	9.8%
$25,001 to $50,000.........	761,440	18.1%	1,693,491,722	16.7%	661,139	18.9%	1,464,195,654	24.0%
$50,001 to $75,000.........	352,398	8.4%	1,385,090,343	13.7%	233,607	6.7%	908,894,439	14.9%
$75,001 to $100,000.......	166,885	4.0%	952,990,040	9.4%	83,650	2.4%	476,544,562	7.8%
$100,001 to $200,000.....	180,689	4.3%	1,668,623,178	16.5%	79,643	2.3%	735,412,464	12.1%
$200,001 and up............	79,757	1.8%	3,317,899,222	32.8%	36,801	1.0%	1,433,318,175	23.6%
	4,207,738	100.0%	$ 10,122,529,972	100.0%	3,504,555	100.0%	$ 6,091,338,303	100.0%

Note: Due to confidentiality issues, the names of the ten largest revenue payers are not available. The categories presented are intended to provide alternative information regarding the sources of the State's revenue. Calender year 2007 is the most recent year for which data are available.

Table 7

Individual Income Tax Rates - Last 10 Years

Tax Year	Bracket 1	Bracket 2	Bracket 3	Bracket 4
2000				
Tax Year	**Bracket 1**	**Bracket 2**	**Bracket 3**	**Bracket 4**
Married - Joint:				
Taxable income	$1-$21,250	$21,251-$100,000	> $100,000	
Tax rate	6%	7%	7.75%	
Married -Separate:				
Taxable income	$1-$10,625	$10,626-$50,000	> $50,000	
Tax rate	6%	7%	7.75%	
Head of Household:				
Taxable income	$1-$17,000	$17,001-$80,000	> $80,000	
Tax rate	6%	7%	7.75%	
Single:				
Taxable income	$1-$12,750	$12,751-$60,000	> $60,000	
Tax rate	6%	7%	7.75%	
2001-2006				
Tax Year	**Bracket 1**	**Bracket 2**	**Bracket 3**	**Bracket 4**
Married - Joint:				
Taxable income	$1-$21,250	$21,251-$100,000	$100,001-$200,000	> $200,000
Tax rate	6%	7%	7.75%	8.25%
Married - Separate:				
Taxable income	$1-$10,625	$10,626-$50,000	$50,001-$100,000	> $100,000
Tax rate	6%	7%	7.75%	8.25%
Head of Household:				
Taxable income	$1-$17,000	$17,001-$80,000	$80,001-$160,000	> $160,000
Tax rate	6%	7%	7.75%	8.25%
Single:				
Taxable income	$1-$12,750	$12,751-$60,000	$60,001-$120,000	> $120,000
Tax rate	6%	7%	7.75%	8.25%
2007				
Tax Year	**Bracket 1**	**Bracket 2**	**Bracket 3**	**Bracket 4**
Married - Joint:				
Taxable income	$1-$21,250	$21,251-$100,000	$100,001-$200,000	> $200,000
Tax rate	6%	7%	7.75%	8%
Married - Separate:				
Taxable income	$1-$10,625	$10,626-$50,000	$50,001-$100,000	> $100,000
Tax rate	6%	7%	7.75%	8%
Head of Household:				
Taxable income	$1-$17,000	$17,001-$80,000	$80,001-$160,000	> $160,000
Tax rate	6%	7%	7.75%	8%
Single:				
Taxable income	$1-$12,750	$12,751-$60,000	$60,001-$120,000	> $120,000
Tax rate	6%	7%	7.75%	8%
2008				
Tax Year	**Bracket 1**	**Bracket 2**	**Bracket 3**	**Bracket 4**
Married - Joint:				
Taxable income	$1-$21,250	$21,251-$100,000	> $100,000	
Tax rate	6%	7%	7.75%	
Married - Separate:				
Taxable income	$1-$10,625	$10,626-$50,000	> $50,000	
Tax rate	6%	7%	7.75%	
Head of Household:				
Taxable income	$1-$17,000	$17,001-$80,000	> $80,000	
Tax rate	6%	7%	7.75%	
Single:				
Taxable income	$1-$12,750	$12,751-$60,000	> $60,000	
Tax rate	6%	7%	7.75%	
2009				
Tax Year	**Bracket 1**	**Bracket 2**	**Bracket 3**	**Bracket 3 Sur tax**
Married - Joint:			> $100,000	
Taxable income	$1-$21,250	$21,251-$100,000	up to $250,000 7.75%	2%
Tax rate	6%	7%	> 250,000	3%
Married - Separate:			> $50,000	
Taxable income	$1-$10,625	$10,626-$50,000	up to $125,000 7.75%	2%
Tax rate	6%	7%	>125,000	3%
Head of Household:			> $80,000	
Taxable income	$1-$17,000	$17,001-$80,000	up to $200,000 7.75%	2%
Tax rate	6%	7%	>200,000	3%
Single:			> $60,000	
Taxable income	$1-$12,750	$12,751-$60,000	up to $150,000 7.75%	2%
Tax rate	6%	7%	>150,000	3%

<u>Temporary Rate Increase</u> - Effective for the tax years January 1, 2001 through December 31, 2003, the General Assembly temporarily raised the highest individual income tax rate from 7.75% to 8.25%. This temporary increase was extended in subsequent budgets. In 2006-07, the General Assembly reduced the top rate from 8.25% to 8.0%, effective January 1, 2007.

<u>Income tax rate restrictions</u> - The State Constitution (Article V, section 2(6) places the following limitation on the income tax: "The rate of tax on incomes shall not in any case exceed ten percent, and there shall be allowed personal exemptions and deductions so that only net incomes are taxed."

Source: North Carolina Department of Revenue

TAXABLE SALES BY BUSINESS GROUP

For the Fiscal Years 2006-2009 — *Table 8*

(Dollars in Thousands)

	2009	2008	2007	2006
General merchandise	$ 27,281,044	$ 27,545,474	$ 27,814,179	$ 24,141,458
Food	19,982,767	20,427,943	18,856,362	17,333,935
Lumber & building material	11,728,029	15,125,717	15,625,168	14,749,083
Automotive	5,365,726	5,782,027	6,138,450	5,416,622
1%, 2%, 2.5% and 3% tax group	653,686	878,522	1,350,932	4,551,097
Furniture	3,854,662	4,746,011	4,733,484	4,387,923
Apparel	3,628,009	3,901,540	3,753,902	3,481,573
Unclassified	27,197,294	29,529,959	28,314,743	27,490,165
Total	$ 99,691,217	$ 107,937,193	$ 106,587,220	$ 101,551,856
Direct sales tax rate	4.50%	4.25%	4.25%	4.50%

1%, 2%, 2.5% and 3% tax group includes manufactured homes, airplanes, boats, modular homes, farm mill, laundry machinery, fuel to farmers, manufacturers and laundries.

Information prior to 2006 is not available.

Source: North Carolina Department of Revenue

SALES TAX REVENUE PAYERS BY BUSINESS GROUP

For the Fiscal Years 2000 & 2009 *Table 9*

	2009		2000	
	Tax Liability	**Percentage of Total**	**Tax Liability**	**Percentage of Total**
General merchandise	$ 1,207,100,654	22.86%	$ 715,701,673	21.24%
Food	886,588,933	16.80%	524,284,128	15.57%
Utilities	961,872,971	18.22%	375,669,973	11.15%
Lumber & building material	516,895,325	9.79%	402,377,626	11.95%
Automotive	253,374,750	4.80%	199,762,787	5.93%
Furniture	170,867,003	3.24%	154,258,498	4.58%
Apparel	160,766,329	3.05%	101,312,348	3.01%
Farming	125,625	0.00%	54,188,149	1.61%
Unclassified	1,121,202,387	21.24%	840,673,522	24.96%
Total	$ 5,278,793,977	100.00%	$ 3,368,228,704	100.00%
General state sales tax rate	4.50%		4.00%	

Recent Significant Sales Tax Rate and Base Changes

1999-00	Effective July 1, 1999, sales of piped natural gas became exempt from sales tax and, instead, became subject to the piped natural gas excise tax.
2001-02	Effective October 1, 2001, the $1,500 tax limit applicable to short-term leases of noncommercial vehicles was repealed. Effective October 16, 2001, the general sales rate increased from 4% to 4.5%. Effective December 1, 2001, sales of spirituous liquor, other than mixed beverages, became subject to a 6% State sales and use tax. Effective January 1, 2002, gross receipts of direct-to-home satellite service to subscribers in this State became subject to a 5% State sales tax. Effective January 1, 2002, gross receipts derived from providing telecommunications services became subject to a 6% State sales and use tax. [Prior to the law change, local telecommunications services were subject to a 3% State sales tax rate and a 3.22% utility franchise tax rate; interstate long distance calls were taxed at 6.5% and interstate long distance calls were exempt.]
2003-04	Effective July 1, 2003, all sales of soft drinks became subject to both the State and local rates. Effective January 1, 2004, sales of closed container soft drinks sold through vending machines were taxed on only 50% of the sale price. Effective January 1, 2004, candy was exempted from the State tax and subject to only the 2% local tax. Effective for sales made on or after January 1, 2004, modular homes became subject to a 2.5% State sales and use tax rate.
2005-06	Effective October 1, 2005, all sales of candy became subject to the combined general State and county tax rate. Effective October 1, 2005, the sales and use tax imposed on telecommunications, direct-to-home satellite services, and spiritous liquor increased to 7%. Effective January 1, 2006, a 7% State sales and use tax was imposed on cable services, and satellite digital audio radio became subject to both the State general rate of tax and local rates.
2006-07	Effective June 29, 2007, the combined general rate is the State's general rate (4.25%) plus the sum of the rates of local tax authorized for every county in the State (2.5%). Effective January 1, 2007, sales of intermodal cranes, intermodal hostler trucks and railroad locomotives to the owner or lessee of an eligible railroad intermodal facility was exempted. Sales to the owner or lessee of an eligible railroal intermodal facility of sales taxes on building supplies, fixtures, and equipment that become a part of the real property of the facility was exempted. Effective June 29, 2007, additional 0.25% Sales general and use tax rate, scheduled to be repealed for sales made on or after July 1, 2007, was extended for one month.
2007-08	Effective July 1, 2007, tax on electricity (2.83%) sold to manufacturers was repealed and the new rate is 2.6%. Effective July 1, 2007, manufacturers and assemblers of aircraft parts, professional motorsports racing teams of 50% of tax on property that comprises any part of a professional motor racing vehicle and taxpayers engaged in analytical services of 50% of tax paid on property consumed or transformed in analytical services would receive refunds. Effective July 31, 2007, additional 0.25% State general sales and use tax rate was made permanent. As a result the combined general rate remains at 6.75% Effective October 1, 2007, Tax on electricity sold to farmers (2.83%) was repealed and the new rate is 1.8%. Effective October 1, 2007, Tax on electricity sold to manufacturers (2.6%) was repealed and the new rate is 1.8%. Effective October 1, 2007, baler twine sold to farmers and bread sold at a bakery thrift store was exempted.
2008-09	Effective July 1, 2008 tax on electricity sold to farmers and manufacturers (1.8%) repealed. New tax rate is 1.4%. Refund provision expanded to include certain industrial facilities-solar electricity generating materials manufacturing industry Effective July 16, 2008 - New sales and use tax holiday for Energy Star qualified products (1st Friday in November through following Sunday). Refund provision to interstate Passenger Air Carriers was extended to repeal for purchases made on or after January 1, 2011 (previously January 1, 2009) Effective August 1, 2008 - Exemption for tpp purchased with a client assistance debit card issued for disaster assistance relief by qualified entities. Exemption for interior design services provided in conjunction with the sale of tpp. Effective October 1, 2008 - State general tax raised from 4.25% to 4.5%. Local sales tax rate under Article 44 lowered from 0.5% to .25% Effective January 1, 2009 -Exemption for bakery items sold without eating utensils by an artisan bakery.

Source: North Carolina Department of Revenue

RATIOS OF OUTSTANDING DEBT BY TYPE

For the Fiscal Years 2000-2009
(Dollars in Thousands)

	2009	2008	2007	2006	2005
Governmental activities:					
General obligation bonds	$ 5,169,265	$ 5,533,760	$ 5,902,330	$ 5,738,815	$ 5,698,535
Lease-purchase revenue bonds	225,045	235,045	245,045	255,045	265,045
Revenue bonds	—	—	—	8,800	—
Certificates of participation	919,585	965,880	727,640	454,060	475,170
Limited obligation bonds	600,000	—	—	—	—
GARVEE bonds	241,820	287,565	—	—	—
Tax judgements payable	—	—	—	—	—
Notes payable	27,663	33,187	37,276	62,298	34,007
Capital leases payable	23,833	24,659	25,740	26,879	330
Total Governmental Activities	7,207,211	7,080,096	6,938,031	6,545,897	6,473,087
Business-type activities:					
Revenue bonds (a)	—	—	—	—	9,070
Notes payable (a)	—	—	—	—	1,569
Total Business-type Activities	—	—	—	—	10,639
Total Primary Government	$ 7,207,211	$ 7,080,096	$ 6,938,031	$ 6,545,897	$ 6,483,726
Debt as a Percentage of Personal Income	2.16%	2.23%	2.27%	2.29%	2.44%
Amount of Debt per Capita	$ 768	$ 768	$ 766	$ 739	$ 747

Note:
(a) The Town of Butner's Enterprise Funds related to water and sewer was sold in 2007 and changed its Enterprise Funds functions in 2006.

Table 10

2004	2003	2002	2001	2000
$ 4,982,860	$ 4,066,990	$ 3,467,325	$ 3,038,693	$ 2,509,986
218,405	—	—	—	—
—	—	—	—	—
301,165	17,500	—	—	—
—	—	—	—	—
—	—	—	—	—
—	—	—	—	58,744
25,008	9,629	11,753	7,870	8,797
304	322	216	—	853
5,527,742	4,094,441	3,479,294	3,046,563	2,578,380
9,325	9,570	9,905	9,905	—
—	—	—	—	—
9,325	9,570	9,905	9,905	—
$ 5,537,067	$ 4,104,011	$ 3,489,199	$ 3,056,468	$ 2,578,380
2.22%	1.73%	1.52%	1.36%	1.18%
$ 648	$ 488	$ 419	$ 373	$ 320

RATIOS OF GENERAL BONDED AND SIMILAR DEBT OUTSTANDING

For the Fiscal Years 2000-2009 *Table 11*

(Dollars in Thousands except Per Capita)

Fiscal Year Ended June 30	General Obligation Bonds	Lease-Purchase Revenue Bonds	Certificates of Participation	Limited Obligation Bonds	GARVEE Bonds	Total	Per Capita
2009	$5,169,265	$ 225,045	$ 919,585	$ 600,000	$ 241,820	$7,155,715	$ 762.34
2008	5,533,760	235,045	965,880	—	287,565	7,022,250	761.43
2007	5,902,330	245,045	727,640	—	—	6,875,015	758.75
2006	5,738,815	255,045	454,060	—	—	6,447,920	728.04
2005	5,698,535	265,045	475,170	—	—	6,438,750	741.51
2004	4,982,860	218,405	301,165	—	—	5,502,430	644.22
2003	4,066,990	—	1,750	—	—	4,068,740	483.96
2002	3,467,326	—	—	—	—	3,467,326	416.74
2001	3,042,570	—	—	—	—	3,042,570	371.67
2000	2,514,730	—	—	—	—	2,514,730	312.42

Note: Population data can be found in table 15.

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SCHEDULE OF GENERAL OBLIGATION BONDS PAYABLE

June 30, 2009

(Dollars in Thousands)

		Payable from General Fund Revenues					
	Total General Obligation Bonds	*Total General Fund*	Public School Building Series 1999 4-1-99 4.5-5.0%	Clean Water Refunding Series 1999 4-1-99 2.9-5.0%	Public Improvement Series 2000A 9-1-00 5.0-5.1%	Public Improvement Series 2001A 3-1-01 4.5-5.0%	Public Improvement Series 2002A 3-1-02 4.0-5.5%
Bonds Authorized and Issued:							
Ch. 631, 1995 session law....	$ 900,000	$ 900,000	$ 450,000	$ —	$ 295,000	$ 100,000	$ —
General Statute Ch. 142........	817,965	817,965	—	25,905	—	—	—
Ch. 590, 1995 session law....	400,000	—	—	—	—	—	—
Ch. 132, 1998 session law....	366,555	366,555	—	—	5,000	30,000	204,400
Ch. 3, 2000 session law........	2,122,800	2,122,800	—	—	—	250,000	—
2004 session law..................	2,556,395	2,158,025	—	—	—	—	—
Total bonds authorized and issued........................	7,163,715	6,365,345	450,000	25,905	300,000	380,000	204,400
Bonds retired.........................	1,474,450	1,270,015	185,000	12,005	96,000	128,000	129,400
Partial defeasances..............	520,000	520,000	228,000	—	180,000	112,000	—
Bonds outstanding— 6/30/2009..........	$ 5,169,265	$ 4,575,330	$ 37,000	$ 13,900	$ 24,000	$ 140,000	$ 75,000
Bond Maturity As Follows:							
2009-10............................	$ 364,385	$ 310,320	$ 18,500	$ 2,050	$ 12,000	$ 16,000	$ 25,000
2010-11............................	364,550	310,520	18,500	2,025	12,000	16,000	25,000
2011-12............................	365,575	311,575	—	2,000	—	16,000	25,000
2012-13............................	367,510	313,670	—	1,980	—	16,000	—
2013-14............................	367,685	313,085	—	1,965	—	16,000	—
2014-15............................	366,940	312,340	—	1,950	—	16,000	—
2015-16............................	366,970	312,370	—	1,930	—	16,000	—
2016-17............................	364,635	310,035	—	—	—	28,000	—
2017-18............................	368,430	313,830	—	—	—	—	—
2018-19............................	369,525	314,925	—	—	—	—	—
2019-20............................	335,175	284,775	—	—	—	—	—
2020-21............................	254,785	254,785	—	—	—	—	—
2021-22............................	235,795	235,795	—	—	—	—	—
2022-23............................	228,760	228,760	—	—	—	—	—
2023-24............................	203,000	203,000	—	—	—	—	—
2024-25............................	123,400	123,400	—	—	—	—	—
2025-26............................	61,400	61,400	—	—	—	—	—
2026-27............................	44,245	44,245	—	—	—	—	—
2027-28............................	16,500	16,500	—	—	—	—	—
Total Bonds Outstanding.......	$ 5,169,265	$ 4,575,330	$ 37,000	$ 13,900	$ 24,000	$ 140,000	$ 75,000

Table 12

Payable from General Fund Revenues

Public Improvement Series 2002D 5-1-02 Variable to 18%	Public Improvement Series 2002E 5-1-02 Variable to 18%	Public Improvement Series 2002F 5-1-02 Variable to 18%	Public Improvement Series 2002G 5-1-02 Variable to 18%	Clean Water Series 2002A 12-1-02 2.25 - 5.0%	Refunding Series 2002A 12-1-02 2% - 5.25%	Refunding Series 2002B 12-12-02 Variable to 20%	Refunding Series 2002C 12-12-02 Variable to 20%	Refunding Series 2002D 12-12-02 Variable to 20%
$ 55,000	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
—	—	—	—	—	56,480	100,000	100,000	100,000
—	—	—	—	—	—	—	—	—
—	—	—	—	18,800	—	—	—	—
33,750	88,750	88,750	88,750	—	—	—	—	—
—	—	—	—	—	—	—	—	—
88,750	88,750	88,750	88,750	18,800	56,480	100,000	100,000	100,000
—	—	—	—	1,290	36,075	—	—	—
—	—	—	—	—	—	—	—	—
$ 88,750	$ 88,750	$ 88,750	$ 88,750	$ 17,510	$ 20,405	$ 100,000	$ 100,000	$ 100,000
$ —	$ —	$ —	$ —	$ 255	$ 10,030	$ —	$ —	$ —
—	—	—	—	270	10,375	—	—	—
—	—	—	—	750	—	4,520	4,520	4,520
6,250	6,250	6,250	6,250	1,815	—	10,920	10,920	10,920
6,250	6,250	6,250	6,250	1,795	—	10,815	10,815	10,815
6,250	6,250	6,250	6,250	1,775	—	10,700	10,700	10,700
6,250	6,250	6,250	6,250	2,245	—	13,385	13,385	13,385
6,250	6,250	6,250	6,250	510	—	3,520	3,520	3,520
10,750	10,750	10,750	10,750	4,915	—	27,975	27,975	27,975
23,250	23,250	23,250	23,250	3,180	—	18,165	18,165	18,165
18,750	18,750	18,750	18,750	—	—	—	—	—
4,750	4,750	4,750	4,750	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
$ 88,750	$ 88,750	$ 88,750	$ 88,750	$ 17,510	$ 20,405	$ 100,000	$ 100,000	$ 100,000

Continued

SCHEDULE OF GENERAL OBLIGATION BONDS PAYABLE

June 30, 2009

(Dollars in Thousands)

Payable from General Fund Revenues

	Refunding Series 2002E 12-12-02 Variable to 20%	Refunding Series 2002F 12-12-02 Variable to 20%	Public Improvement Series 2003A 3-1-03 2.0% - 5.25%	Public Improvement Series 2003B 4-1-03 2.0-5.0%	Refunding Series 2003E 8-1-03 4%-5%	Public Improvement Series 2004A 3-1-04 2%-5.25%	Capital Improvement Refunding Series 2004 9-29-04 4%-5.5%
Bonds Authorized and Issued:							
Ch. 631, 1995 session law....	$ —	$ —	$ —	$ —	$ —	$ —	$ —
General Statute Ch. 142........	100,000	99,870	—	—	235,710	—	—
Ch. 590, 1995 session law....	—	—	—	—	—	—	—
Ch. 132, 1998 session law....	—	—	38,355	—	—	—	—
Ch. 3, 2000 session law........	—	—	281,645	283,255	—	707,900	—
2004 session law..................	—	—	—	—	—	—	59,275
Total bonds authorized and issued........................	100,000	99,870	320,000	283,255	235,710	707,900	59,275
Bonds retired.........................	—	—	38,000	35,300	131,935	70,000	36,285
Partial defeasances...............	—	—	—	—	—	—	—
Bonds outstanding— 6/30/2009..........................	$ 100,000	$ 99,870	$ 282,000	$ 247,955	$ 103,775	$ 637,900	$ 22,990
Bond Maturity As Follows:							
2009-10............................	$ —	$ —	$ 13,000	$ 13,000	$ 27,715	$ 25,000	$ 11,515
2010-11............................	—	—	13,000	13,000	27,785	25,000	11,475
2011-12............................	4,520	4,500	13,000	13,000	27,855	25,000	—
2012-13............................	10,920	10,915	13,000	13,000	20,420	25,000	—
2013-14............................	10,815	10,795	13,000	13,000	—	25,000	—
2014-15............................	10,700	10,690	13,000	13,000	—	25,000	—
2015-16............................	13,385	13,370	13,000	13,000	—	25,000	—
2016-17............................	3,520	3,525	13,000	13,000	—	25,000	—
2017-18............................	27,975	27,950	13,000	13,000	—	25,000	—
2018-19............................	18,165	18,125	16,500	18,000	—	25,000	—
2019-20............................	—	—	16,500	30,000	—	65,000	—
2020-21............................	—	—	16,500	30,000	—	65,000	—
2021-22............................	—	—	16,500	30,000	—	65,000	—
2022-23............................	—	—	16,500	22,955	—	65,000	—
2023-24............................	—	—	16,500	—	—	65,000	—
2024-25............................	—	—	16,500	—	—	62,900	—
2025-26............................	—	—	16,500	—	—	—	—
2026-27............................	—	—	16,500	—	—	—	—
2027-28............................	—	—	16,500	—	—	—	—
Total Bonds Outstanding.......	$ 100,000	$ 99,870	$ 282,000	$ 247,955	$ 103,775	$ 637,900	$ 22,990

Table 12

Payable from General Fund Revenues

Public School Refunding Series 2004 9-29-04 5%	Public Improvement Refunding Series 2004 9-29-04 3%-5.5%	Public Improvement Series 2005A 1-12-05 4%-5.5%	Natural Gas 2005 1-12-05 3%-4%	Refunding Series 2005A 1-12-05 3%-5%	Refunding Series 2005B 6-29-05 5%	Clean Water Series 2006A 3-15-06 3.875%-5.5%	Higher Education Series 2006A 6-14-06 4.25%-5%	Public Improvement Series 2007A 3-1-07 4.125%-5%	Refunding Series 2007B 5-9-07 4%-4.5%
$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	70,000	—	—	—
—	—	—	—	—	—	—	300,000		
155,245	57,470	705,500	16,000	106,895	470,510	—	—	502,745	84,385
155,245	57,470	705,500	16,000	106,895	470,510	70,000	300,000	502,745	84,385
62,085	435	167,200	12,800	190	22,885	9,100	45,000	50,000	1,030
—	—	—	—	—	—	—	—	—	—
$ 93,160	$ 57,035	$ 538,300	$ 3,200	$ 106,705	$ 447,625	$ 60,900	$ 255,000	$ 452,745	$ 83,355
$ 31,160	$ 9,575	$ 21,800	$ 3,200	$ 50	$ 27,085	$ 3,200	$ 15,000	$ 25,000	$ 185
31,055	9,555	25,000	—	50	27,040	3,200	15,000	25,000	190
30,945	9,535	25,000	—	12,025	45,490	3,200	15,000	25,000	195
—	9,510	25,000	—	11,935	53,010	3,200	15,000	25,000	205
—	9,490	25,000	—	11,810	73,555	3,200	15,000	25,000	215
—	9,370	25,000	—	11,680	73,650	3,200	15,000	25,000	225
—	—	25,000	—	11,600	69,255	3,200	15,000	25,000	230
—	—	25,000	—	47,555	71,925	3,200	15,000	25,000	240
—	—	25,000	—	—	6,615	3,200	15,000	25,000	250
—	—	25,000	—	—	—	3,200	15,000	25,000	260
—	—	54,000	—	—	—	4,000	15,000	25,000	275
—	—	80,000	—	—	—	4,000	15,000	25,000	285
—	—	80,000	—	—	—	4,000	15,000	25,000	295
—	—	—	—	—	—	4,000	15,000	25,000	80,305
—	—	77,500	—	—	—	4,000	15,000	25,000	—
—	—	—	—	—	—	4,000	15,000	25,000	—
—	—	—	—	—	—	4,900	15,000	25,000	—
—	—	—	—	—	—	—	—	27,745	—
—	—	—	—	—	—	—	—	—	—
$ 93,160	$ 57,035	$ 538,300	$ 3,200	$ 106,705	$ 447,625	$ 60,900	$ 255,000	$ 452,745	$ 83,355

Continued

SCHEDULE OF GENERAL OBLIGATION BONDS PAYABLE

June 30, 2009 *Table 12*

(Dollars in Thousands)

Payable from Highway Trust Fund

	Total Highway Trust	Highway Series 2003 12-1-03 3%-5%	Highway Refunding Series 2004 9-29-04 5.0-5.5%	Highway Series 2004 9-29-04 3%-5%
Bonds Authorized and Issued:				
Ch. 631, 1995 session law....	$ —	$ —	$ —	$ —
General Statute Ch. 142........	—	—	—	—
Ch. 590, 1995 session law....	400,000	400,000	—	—
Ch. 132, 1998 session law....	—	—	—	—
Ch. 3, 2000 session law........	—	—	—	—
2004 session law..................	398,370	—	98,370	300,000
Total bonds authorized and issued........................	798,370	400,000	98,370	300,000
Bonds retired.........................	204,435	90,000	34,435	80,000
Partial defeasances...............	—	—	—	—
Bonds outstanding— 6/30/2009..............................	— $ 593,935	$ 310,000	$ 63,935	$ 220,000
Bond Maturity As Follows:				
2009-10..............................	$ 54,065	$ 18,000	$ 16,065	$ 20,000
2010-11..............................	54,030	18,000	16,030	20,000
2011-12..............................	54,000	18,000	16,000	20,000
2012-13..............................	53,840	18,000	15,840	20,000
2013-14..............................	54,600	34,600	—	20,000
2014-15..............................	54,600	34,600	—	20,000
2015-16..............................	54,600	34,600	—	20,000
2016-17..............................	54,600	34,600	—	20,000
2017-18..............................	54,600	34,600	—	20,000
2018-19..............................	54,600	34,600	—	20,000
2019-20..............................	50,400	30,400	—	20,000
2020-21..............................	—	—	—	—
2021-22..............................	—	—	—	—
2022-23..............................	—	—	—	—
2023-24..............................	—	—	—	—
2024-25..............................	—	—	—	—
2025-26..............................	—	—	—	—
2026-27..............................	—	—	—	—
2027-28..............................	—	—	—	—
Total Bonds Outstanding.......	$ 593,935	$ 310,000	$ 63,935	$ 220,000

Source: Compiled by the Department of State Treasurer

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SCHEDULE OF SPECIAL INDEBTEDNESS DEBT

June 30, 2009

(Dollars in Thousands)

	Total Special Indebtedness Debt	*Lease-Purchase Revenue Bonds:* *Total Lease Purchase Revenue Bonds*	NC Correctional Facilities Series 2003 7-15-03 2.0% - 5.25%	NC Facilities Projects Series 2004 11-1-04 2.0% - 5.25%	*Certificates of Participation:* *Total Certificates of Participation*	Wildlife Capital Improvements Series 2003A 4-1-03 2.0% - 5.25%	Correctional Facilities Project Series 2004A 2-1-04 2.0% - 5.0%	Repair and Renovation Project Series 2004A 5-6-04 2.0% - 5.0%	Capital Improvements Series 2005A 6-9-05 3.5% - 5.0%
Bonds Authorized and Issued:									
Ch. 284, 2003 session law.........	$ 1,677,360	$ 218,405	$ 218,405	$ —	$ 858,955	$ —	$ 158,955	$ 125,000	$ —
Ch. 143, 2000 session law............	17,500	—	—	—	17,500	17,500	—	—	—
General Statute Ch. 148-37.2....	53,640	53,640	—	53,640	0	—	—	—	—
Ch. 179, 2004 session law.........	188,385	—	—	—	188,385	—	—	—	188,385
Total bonds authorized and issued.............................	1,936,885	272,045	218,405	53,640	1,064,840	17,500	158,955	125,000	188,385
Bonds retired.............................	192,255	47,000	39,000	8,000	145,255	3,450	39,745	30,000	27,875
Bonds outstanding— June 30, 2009......................	$ 1,744,630	$ 225,045	$ 179,405	$ 45,640	$ 919,585	$ 14,050	$ 119,210	$ 95,000	$ 160,510
Bond Maturity As Follows:									
2009-10.................................	$ 76,280	$ 10,000	$ 8,000	$ 2,000	$ 46,985	$ 740	$ 7,950	$ 6,000	$ 7,780
2010-11.................................	77,700	10,000	8,000	2,000	47,740	765	7,950	6,000	8,165
2011-12.................................	79,260	10,000	8,000	2,000	48,550	795	7,950	6,000	8,580
2012-13.................................	80,960	10,000	8,000	2,000	49,395	825	7,950	6,000	9,005
2013-14.................................	82,730	10,000	8,000	2,000	50,290	860	7,950	6,000	9,455
2014-15.................................	84,635	10,000	8,000	2,000	51,245	905	7,950	6,000	9,925
2015-16.................................	86,715	10,000	8,000	2,000	52,250	950	7,950	6,000	10,425
2016-17.................................	87,525	8,650	8,000	650	53,305	1,000	7,945	6,000	10,945
2017-18.................................	89,700	8,500	8,000	500	54,430	1,055	7,945	6,000	11,495
2018-19.................................	91,600	8,000	8,000	—	55,605	1,110	7,945	6,000	12,065
2019-20.................................	116,010	28,850	19,000	9,850	57,850	1,165	7,945	7,000	12,670
2020-21.................................	110,625	24,000	19,000	5,000	55,865	1,230	7,945	7,000	10,000
2021-22.................................	112,875	24,000	19,000	5,000	56,580	1,290	7,945	7,000	10,000
2022-23.................................	115,225	24,000	19,000	5,000	57,350	1,360	7,945	7,000	10,000
2023-24.................................	118,515	26,225	23,405	2,820	56,725	—	7,945	7,000	10,000
2024-25.................................	82,725	2,820	—	2,820	42,560	—	—	—	10,000
2025-26.................................	72,605	—	—	—	33,390	—	—	—	—
2026-27.................................	70,390	—	—	—	29,270	—	—	—	—
2027-28.................................	63,320	—	—	—	20,200	—	—	—	—
2028-29.................................	45,235	—	—	—	0	—	—	—	—
Total Bonds Outstanding...........	$ 1,744,630	$ 225,045	$ 179,405	$ 45,640	$ 919,585	$ 14,050	$ 119,210	$ 95,000	$ 160,510

Source: Compiled by the Department of State Treasurer.

Table 13

Certificates of Participation				*Limited Obligation bonds*		
Repair and Renovation Projects Series 2006A 8-16-06	Capital Improvements Series 2006A 10-18-06	Capital Improvements Series 2007A 10-3-07	Repair and Renovation Projects Series 2007B 10-24-07	*Total Limited Obligation Bonds*	Capital Improvements Series 2008A 8-27-08	Capital Improvements Series 2009A 4-29-09
4.0% - 5.0%	4.0% - 5.0%	4.0% - 5.0%	4.0% - 5.0%		4.0% - 5.0%	2.0% - 5.0%
$ 100,000	$ 200,000	$ 200,000	$ 75,000	$ 600,000	$ 200,000	$ 400,000
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
100,000	200,000	200,000	75,000	600,000	200,000	400,000
15,000	20,000	5,435	3,750	—	—	—
$ 85,000	$ 180,000	$ 194,565	$ 71,250	$ 600,000	$ 200,000	$ 400,000
$ 5,000	$ 10,000	$ 5,765	$ 3,750	$ 19,295	$ 6,050	$ 13,245
5,000	10,000	6,110	3,750	19,960	6,350	13,610
5,000	10,000	6,475	3,750	20,710	6,670	14,040
5,000	10,000	6,865	3,750	21,565	7,000	14,565
5,000	10,000	7,275	3,750	22,440	7,350	15,090
5,000	10,000	7,715	3,750	23,390	7,720	15,670
5,000	10,000	8,175	3,750	24,465	8,105	16,360
5,000	10,000	8,665	3,750	25,570	8,510	17,060
5,000	10,000	9,185	3,750	26,770	8,935	17,835
5,000	10,000	9,735	3,750	27,995	9,385	18,610
5,000	10,000	10,320	3,750	29,310	9,855	19,455
5,000	10,000	10,940	3,750	30,760	10,345	20,415
5,000	10,000	11,595	3,750	32,295	10,860	21,435
5,000	10,000	12,295	3,750	33,875	11,405	22,470
5,000	10,000	13,030	3,750	35,565	11,975	23,590
5,000	10,000	13,810	3,750	37,345	12,575	24,770
5,000	10,000	14,640	3,750	39,215	13,205	26,010
—	10,000	15,520	3,750	41,120	13,865	27,255
—	—	16,450	3,750	43,120	14,555	28,565
—	—	—	—	45,235	15,285	29,950
$ 85,000	$ 180,000	$ 194,565	$ 71,250	$ 600,000	$ 200,000	$ 400,000

PLEDGED REVENUE COVERAGE

For the Fiscal Years 2002-2009
(Dollars in Thousands)

	2009	2008	2007	2006	2005
Town of Butner					
Revenue Bonds					
Pledged Revenue-					
Sales and services	(a)	(a)	(a)	$ 2,377	$ 3,531
Rental lease earnings	(a)	(a)	(a)	5	3
Fees, licenses and fines	(a)	(a)	(a)	8	14
Miscellaneous revenue	(a)	(a)	(a)	147	156
Less: Operating expenses	(a)	(a)	(a)	(2,261)	(2,470)
Net available revenue	$ —	$ —	$ —	$ 276	$ 1,234
Debt service					
Principal	(a)	(a)	(a)	$ 270	$ 255
Interest	(a)	(a)	(a)	394	414
Coverage	(a)	(a)	(a)	0.42	1.85
Department of Transportation					
Grant Anticipation Revenue Vehicle Bonds (GARVEE)					
Pledged Revenue-					
Federal transportation revenues	$ 1,119,259	$ 904,400	$ —	$ —	$ —
Less: Operating expenses	—	—	—	—	—
Net available revenue	$ 1,119,259	$ 904,400	$ —	$ —	$ —
Debt service					
Principal	$ 45,745	$ —	$ —	$ —	$ —
Interest	13,585	5,056	—	—	—
Coverage	18.87	178.87	—	—	—
N.C. Housing Finance Agency					
Revenue Bonds					
Pledged Revenue-					
Interest on investments	$ 13,001	$ 21,281	$ 26,088	$ 23,718	$ 17,659
Interest on mortgage loans	86,813	82,913	71,892	66,515	69,816
Net increase/decrease in fair value of investments	(444)	1,064	1,544	(2,372)	544
Other revenue	617	951	65	444	198
Less: Operating expenses	(6,062)	(5,542)	(4,868)	(4,640)	(4,996)
Net available revenue	$ 93,925	$ 100,667	$ 94,721	$ 83,665	$ 83,221
Debt service					
Principal	$ 18,745	$ 31,050	$ 178,050	$ 175,670	$ 27,967
Interest	43,070	77,665	73,845	70,059	63,242
Coverage	1.52	0.93	0.38	0.34	0.91
State Education Assistance Authority					
Revenue Bonds					
Pledged Revenue-					
Student loan principal collections	$ 346,546	$ 364,274	$ 618,723	$ 660,332	$ 300,827
Interest earnings on loans	90,594	137,512	151,237	115,306	80,912
Investment earnings	7,043	18,999	24,551	15,174	4,157
Less: Operating expenses	(43,273)	(31,381)	(30,290)	(24,627)	(19,395)
Net available revenue	$ 400,910	$ 489,404	$ 764,221	$ 766,185	$ 366,501
Debt service					
Principal	$ 224,275	$ 153,589	$ —	$ 1,000	$ 1,000
Interest	129,595	165,517	117,324	60,912	25,212
Coverage	1.13	1.53	6.51	12.38	13.98

(a) The Town of Butner's Enterprise Funds related to water and sewer was sold
Information prior to 2002 is not available.

Table 14

2004	2003	2002
$ 3,673	$ 3,936	$ 3,581
8	—	—
14	13	17
106	243	407
(2,372)	(2,341)	(2,276)
$ 1,429	$ 1,851	$ 1,729
$ 245	$ 235	$ 100
419	434	431
2.16	2.77	3.26
$ —	$ —	$ —
—	—	—
$ —	$ —	$ —
$ —	$ —	$ —
—	—	—
—	—	—
$ 17,357	$ 14,687	$ 13,315
74,650	83,045	82,789
—	—	3,926
147	92	710
(4,678)	(4,739)	(5,165)
$ 87,476	$ 93,085	$ 95,575
$ 24,245	$ 21,465	$ 15,762
69,622	74,408	77,487
0.93	0.97	1.03
$ 277,552	$ 214,782	$ 133,041
50,037	46,587	55,281
2,686	2,450	3,121
(17,603)	(14,781)	(10,692)
$ 312,672	$ 249,038	$ 180,751
$ 1,000	$ 1,000	$ 1,000
17,736	23,351	36,385
16.69	10.23	4.84

Continued

PLEDGED REVENUE COVERAGE

For the Fiscal Years 2002-2009
(Dollars in Thousands)

	2009	2008	2007	2006	2005
University of North Carolina System					
Revenue Bonds					
Pledged Revenue-					
Sales and services	$ 415,626	$ 665,476	$ 620,570	$ 568,262	$ 531,673
Student tuition and fees	16,187	29,924	37,794	37,577	51,657
Patient services	502,062	1,447,635	1,367,363	1,210,356	1,131,038
Contracts and grants	8	123,470	120,662	120,513	113,049
State appropriations	—	53,010	45,674	44,510	39,334
Fees, licenses and fines	1,643	10,506	19,814	19,626	13,056
Rental lease earnings	5,989	7,690	29,587	21,182	18,802
Investment income	5,254	(31,615)	99,418	31,705	19,121
Other operating revenues	498	13,407	20,318	30,385	30,133
Non-operating revenues	—	53,231	50,929	37,274	39,558
Less: Operating expenses	(807,584)	(2,052,739)	(1,923,889)	(1,768,372)	(1,653,952)
Net available revenue	$ 139,683	$ 319,995	$ 488,240	$ 353,018	$ 333,469
Debt service					
Principal	$ 20,890	$ 52,402	$ 53,090	$ 53,761	$ 54,917
Interest	16,560	70,408	67,894	67,710	58,146
Coverage	3.73	2.61	4.04	2.91	2.95
Certificates of Participation (COPS)					
Pledged Revenue-					
Sales and services	$ 2,874	$ 2,446	$ —	$ —	$ —
Student tuition and fees	1,329	1,147	1,114	1,090	—
Rental lease earnings	77	118	—	—	—
Investment income	8	45	44	19	—
Other operating revenues	—	—	—	—	—
Non-operating revenues	—	—	—	—	—
Less: Operating expenses	(993)	(895)	(60)	—	—
Net available revenue	$ 3,295	$ 2,861	$ 1,098	$ 1,109	$ —
Debt service					
Principal	$ 1,105	$ 1,075	$ 905	$ 575	$ —
Interest	1,181	1,209	573	222	—
Coverage	1.44	1.25	0.74	1.39	—

Table 14

2004	2003	2002
$ 513,867	$ 479,714	$ 466,789
54,525	54,025	48,773
1,057,614	928,153	949,442
104,373	98,371	85,045
37,788	37,771	39,092
12,413	11,834	9,416
17,781	17,470	16,150
20,580	53,432	43,196
32,284	38,509	41,003
35,688	46,521	39,569
(1,604,207)	(1,487,632)	(1,460,074)
$ 282,706	$ 278,168	$ 278,401
$ 54,467	$ 48,520	$ 48,515
53,067	53,351	55,104
2.63	2.73	2.69
$ —	$ —	$ —
—	—	—
—	—	—
—	—	—
—	—	—
—	—	—
—	—	—
$ —	$ —	$ —
$ —	$ —	$ —
—	—	—
—	—	—

SCHEDULE OF DEMOGRAPHIC DATA

For the Years 1950, 1960, 1970, 1980, 1990, 2000-2009

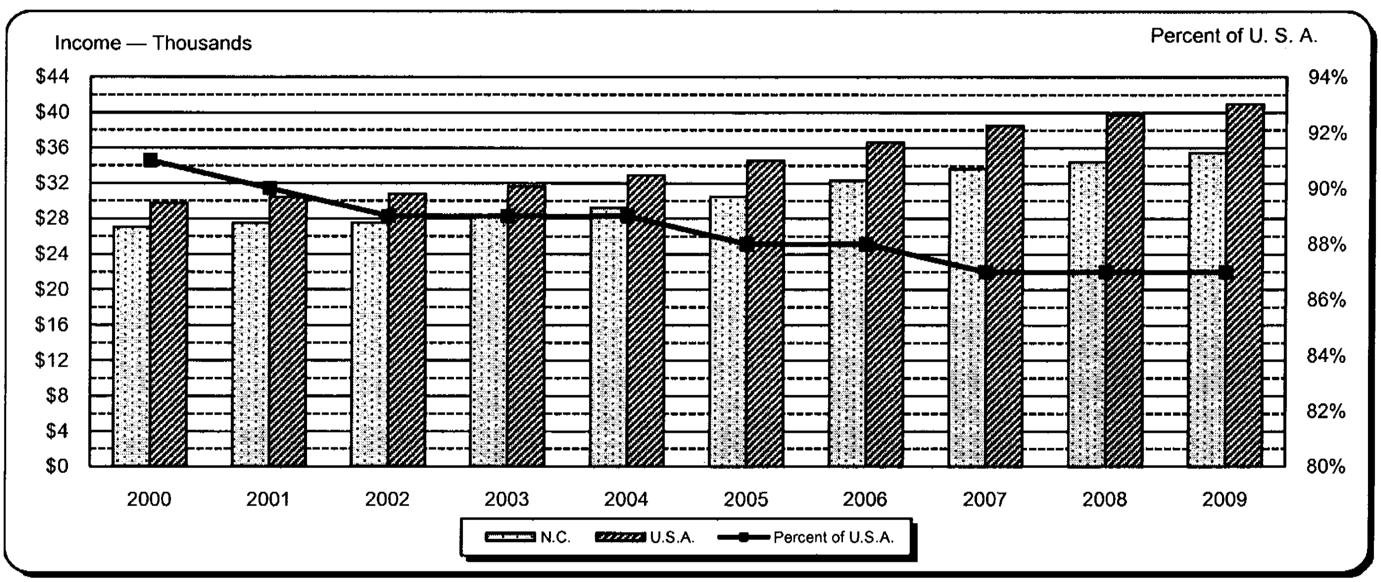
	Population			[1]	Per Capita Income		[2]	Personal Income (millions)	[3]
Year	United States Population	U.S. Increase from Prior Period	North Carolina Population	N.C. Increase from Prior Period	United States	North Carolina	N.C. as a Percentage of U.S.	United States	North Carolina
2009	306,522,608 [F]	0.81%	9,386,573 [F]	1.78%	$ 40,975 [G]	$ 35,501 [G]	86.64%	$12,559,764	$ 333,233
2008	304,059,724 [D]	0.81%	9,222,414 [D]	1.78%	39,751 [E]	34,439 [E]	86.64%	12,086,678	317,611
2007	301,621,157 [D]	0.74%	9,061,032 [D]	2.31%	38,564 [E]	33,663 [E]	87.29%	11,631,718	305,022
2006	299,398,484 [D]	1.01%	8,856,505 [D]	2.00%	36,629 [E]	32,338 [E]	88.29%	10,966,667	286,402
2005	296,410,404 [D]	0.94%	8,683,242 [D]	1.66%	34,586 [E]	30,553 [E]	88.34%	10,251,650	265,299
2004	293,655,404 [D]	0.98%	8,541,221 [D]	1.59%	32,937 [E]	29,246 [E]	88.79%	9,672,128	249,797
2003	290,809,777 [D]	0.85%	8,407,248 [D]	1.05%	31,632 [E]	28,235 [E]	89.26%	9,198,895	237,379
2002	288,368,698 [D]	1.25%	8,320,146 [D]	1.64%	30,832 [E]	27,566 [E]	89.41%	8,890,984	229,353
2001	284,797,000 [D]	0.95%	8,186,268 [D]	1.70%	30,472 [E]	27,514 [E]	90.29%	8,678,334	225,237
2000	282,125,000 [B]	3.46%	8,049,313 [C]	5.25%	29,770 [E]	27,055 [E]	90.88%	8,398,861	217,774
1990	248,791,000 [A]	9.82%	6,632,448 [A]	12.79%	19,588	17,295	88.29%	4,873,318	114,708
1980	226,546,000 [A]	11.13%	5,880,095 [A]	15.65%	10,062	8,090	80.40%	2,279,506	47,570
1970	203,849,000 [A]	13.26%	5,084,411 [A]	11.59%	4,072	3,255	79.94%	830,073	16,550
1960	179,979,000 [A]	18.51%	4,556,155 [A]	12.17%	2,254	1,615	71.65%	405,673	7,358
1950	151,868,000 [A]		4,061,929 [A]		1,496	1,037	69.32%	227,195	4,212

[A] - U.S. Census count - April 1 (1950 - 1990)
[B] - U.S. Census estimates - July 1 (1991 - 2000)
[C] - N.C. Office of State Planning estimate - July 1, 1991 - 1999, based on April, 1990 census population of 6,628,637 and April, 2000 census population of 8,049,313
[D] - U.S. Census estimates based on 2000 census
[E] - Bureau of Economic Analysis estimate

[F] - Since the 2009 population estimates are not available, the Office of State Controller used the growth rate of the previous year to project the 2009 amounts.

[G] - Since the 2009 per capita income estimates are not available, the Office of State Controller used the U.S. Per Capita Income growth rate of the previous year to project the 2009 U.S. Per Capita Income and the previous year "N.C. as a Percentage of U.S." was used to project the "2009 Per Capita Income for North Carolina".

Per Capita Income
North Carolina Compared to United States
2000 to 2009



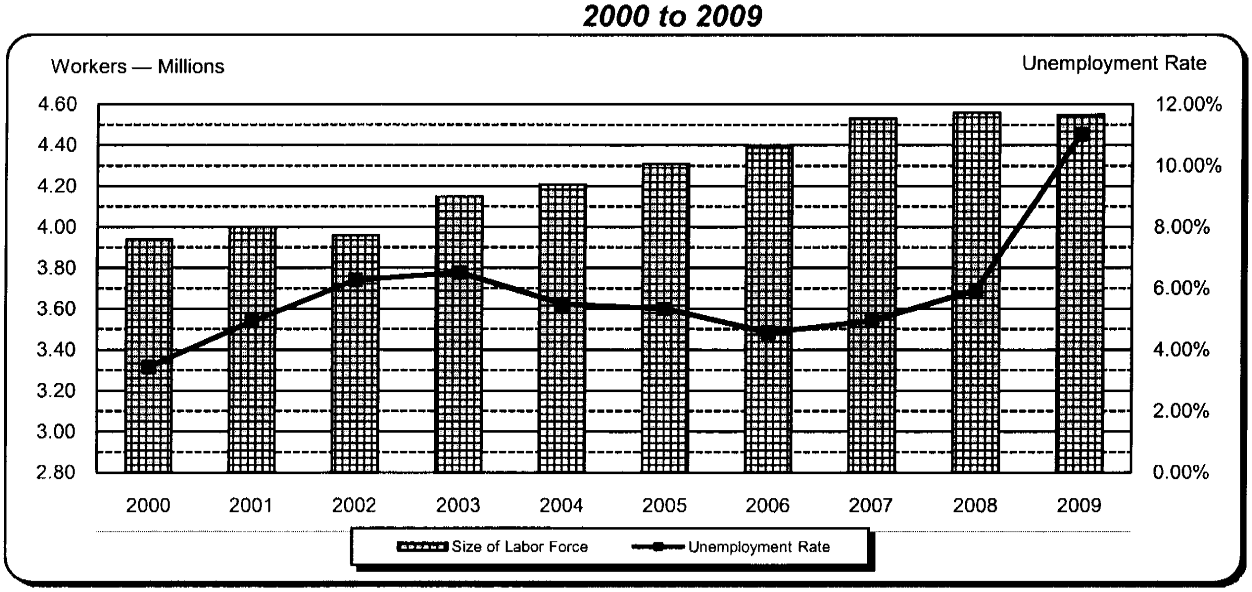
Sources: *[1] Population* — *U.S. Department of Commerce, Bureau of the Census*
[2] Per Capita Income — *U.S. Department of Commerce, Bureau of Economic Analysis*
[3] Personal Income — *Calculated from sources 1 and 2*

Table 15

	North Carolina Civilian Labor Force Data			[4]	North Carolina - Other Data	
					[5]	[6]
Year	Total	Employed	Unemployed	Unemployed Percentage Rate	Motor Vehicles Registered	Residential Construction Authorized
2009	4,554,663	4,052,943	501,720	11.02%	8,451,048	17,006
2008	4,559,713	4,288,621	271,092	5.95%	8,570,893	31,316
2007	4,533,682	4,309,833	223,849	4.94%	8,523,302	46,140
2006	4,394,216	4,193,971	200,245	4.56%	8,407,473	54,626
2005	4,308,482	4,078,645	229,837	5.33%	7,925,587	50,488
2004	4,208,568	3,977,421	231,147	5.49%	7,701,410	46,735
2003	4,152,243	3,882,026	270,217	6.51%	7,624,272	38,137
2002	3,964,000	3,715,400	248,600	6.27%	7,498,181	40,763
2001	3,999,300	3,802,500	196,800	4.92%	7,344,437	23,555
2000	3,941,000	3,805,300	135,700	3.44%	7,112,610	77,351
1990	3,471,000	3,339,000	132,000	3.80%	5,600,050	30,471
1980	2,759,197	2,607,925	151,272	5.48%	5,094,814	6,730
1970	2,054,838	1,984,402	70,436	3.43%	3,218,292	N/A
1960	1,680,442	1,605,478	74,964	4.46%	1,907,988	N/A
1950	1,512,924	1,463,352	49,572	3.28%	1,171,228	N/A

N/A = Data not available.

Civilian Labor Force Trends With Unemployment Percentages 2000 to 2009



Sources: *[4] Seasonally Adjusted Labor Force Data - As of June 30* — *N.C. Employment Security Commission*
[5] Motor Vehicle Registrations - For the Fiscal Year Ended June 30 — *N.C. Division of Motor Vehicles*
[6] Residential Housing Permits — *U.S. Department of Commerce, Bureau of the Census*

PRINCIPAL EMPLOYERS

For the Fiscal Years 2001 & 2009 *Table 16*

	2009			2001		
Employer	Employees	Rank	Percentage of Total State Employment	Employees	Rank	Percentage of Total State Employment
State of North Carolina	180,000-184,999	1	4.50%	160,000-164,999	1	4.27%
Federal Government	65,000-69,999	2	1.67%	60,000-64,999	2	1.64%
Wal-Mart Stores, Inc.	50,000-54,999	3	1.30%	30,000-34,999	3	0.86%
Duke University	25,000-29,999	4	0.68%	20,000-24,999	5	0.59%
Food Lion LLC	25,000-29,999	5	0.68%	25,000-29,999	4	0.72%
Charlotte Hospital Authority	20,000-24,999	6	0.56%	10,000-14,999	10	0.33%
Charlotte Board of Ed.	20,000-24,999	7	0.56%	15,000-19,999	7	0.46%
Wake Public Schools	20,000-24,999	8	0.56%	10,000-14,999	8	0.33%
Wachovia Bank, NA	15,000-19,999	9	0.43%	10,000-14,999	9	0.33%
Lowes Home Centers, Inc	15,000-19,999	10	0.43%	—		—
IBM Corporation	—		—	15,000-19,999	6	0.46%
Total	435,000-484,990		11.37%	355,000-404,990		9.99%

Notes: All figures are based on 1st quarter average. Percentage of total state employment is based on the average of the ranges given. Information prior to 2001 is not available.

Source: *North Carolina Employment Security Commission*

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TEACHERS AND STATE EMPLOYEES BY FUNCTION

For the Fiscal Years 2002-2009

Functions	2009	2008	2007	2006	2005
General government	6,362	6,188	6,045	5,680	5,435
Primary and secondary education	163,322	163,113	160,086	156,463	152,746
Higher education:					
Universities	61,299	59,084	56,964	55,800	53,560
Community colleges	17,027	16,480	15,935	15,610	15,764
Health and human services	22,094	21,276	21,128	20,766	20,665
Economic development	2,474	2,558	2,623	2,567	2,366
Environment and natural resources	4,740	4,709	4,653	4,616	4,493
Public safety, corrections and regulations	33,431	32,600	31,971	31,448	30,429
Transportation	14,767	14,752	14,664	14,007	14,379
Agriculture	1,393	1,385	1,405	1,377	1,339
Totals	326,909	322,145	315,474	308,334	301,176

Source: North Carolina Office of State Budget and Management
Counts for fiscal year end 2009 are projected from prior year data.
Information prior to 2002 not available.

Table 17

2004	2003	2002
5,301	5,635	5,635
147,798	143,428	140,103
51,902	50,787	49,625
15,277	14,582	13,959
20,366	18,545	18,816
2,469	2,466	2,591
4,341	4,337	4,750
30,125	30,810	30,982
14,218	14,438	14,378
1,343	1,275	1,295
293,140	286,303	282,134

OPERATING INDICATORS BY FUNCTION

For the Fiscal Years 2002-2009

	2009	2008	2007	2006	2005
General Government					
Department of Revenue					
Number of tax returns filed electronically	3,502,141	3,246,333	2,799,979	2,487,716	1,922,459
Number of tax returns processed	11,336,722	11,258,489	10,386,112	10,437,669	9,947,817
Number of individual refunds direct deposited	1,294,894	1,119,403	925,321	809,473	673,976
Number of individual refunds processed	3,081,986	3,005,539	2,832,152	2,834,960	2,732,523
Number of pieces of incoming mail	6,897,757	8,636,219	8,092,899	7,986,688	8,334,624
Number of pieces of outgoing mail	8,443,945	9,194,775	7,844,614	9,206,342	8,687,346
Department of Administration					
Construction projects administered	135	117	61	71	226
Construction value excluding design fee (thousands)	$ 110,674	$ 52,660	$ 60,028	$ 73,006	$ 873,713
Cultural Resources					
Visitation to historical sites and museums	2,079,340	2,627,987	2,748,455	2,068,910	2,356,046
Primary and Secondary Education					
Public School(K-12)					
Public school enrollment	1,466,803	1,462,374	1,435,275	1,368,607	1,346,681
Total high school graduates	83,618	80,606	88,691	72,580	74,691
Graduate intention to pursue further education	85.09%	84.86%	84.63%	87.09%	84.64%
Higher Education					
Community Colleges					
Number of students (annualized FTE)	215,915	200,000	193,410	190,644	194,235
Number of certificates and degrees awarded	31,203	28,173	27,117	28,983	29,600
Universities					
Number of regular term students (FTE)	193,219	187,791	181,886	176,619	158,398
Number of certificates and degrees awarded	41,924	39,592	38,260	37,348	37,569
Health and Human Services					
Department of Health and Human Services					
Medicaid recipients (a)	1,686,515	1,721,488	1,667,354	1,673,510	1,545,366
Food stamp recipients	1,077,914	924,265	874,426	838,064	818,141
Clients served by mental health facilities	14,977	14,706	18,501	18,678	18,894
Clients served by developmental disabilities facilities	1,329	1,344	1,312	2,114	2,172
Clients served by substance abuse facilities	4,221	4,307	144	3,854	3,633
Children served through subsidized child care	150,813	159,457	167,568	149,946	155,339
Participation in Special Supplemental Nutrition Program	273,845	254,120	239,441	230,140	224,670
Clients served through Work First	54,911	53,082	59,340	69,885	39,426
NC Health Choice annual enrollment	194,611	181,685	171,580	199,160	169,491
Economic Development					
Department of Commerce					
Jobs generated company recruitment/expansion	15,077	11,636	19,259	20,293	18,246
Capital investment (thousands)	$ 3,433,657	$ 3,600,000	$ 3,336,864	$ 3,024,914	$ 2,982,292
Employment Security Commission					
Total employed	4,054,498	4,288,946	4,309,833	4,193,971	4,087,359
Percentage of unemployment	11.00%	6.00%	4.90%	4.56%	5.38%

Table 18

2004	2003	2002
1,666,765	1,436,218	1,239,844
9,725,620	9,778,591	9,658,531
564,200	446,217	N/A
2,658,709	2,654,339	2,595,070
8,122,589	8,222,560	9,061,094
8,922,981	10,098,087	9,332,605
181	213	205
$ 486,287	$ 522,060	$ 359,381
2,465,484	2,234,241	1,326,603
1,325,344	1,303,777	1,285,729
71,853	69,568	65,681
83.26%	83.63%	83.13%
192,693	185,490	176,743
27,050	23,645	22,853
152,224	171,409	141,272
36,689	34,580	32,644
1,541,450	N/A	N/A
791,241	N/A	N/A
16,353	N/A	N/A
2,189	N/A	N/A
3,572	N/A	N/A
156,534	N/A	N/A
218,345	N/A	N/A
42,177	N/A	N/A
N/A	N/A	N/A
15,393	9,531	13,459
$ 1,863,213	$ 1,127,466	$ 2,690,123
3,977,421	3,882,026	3,715,400
5.49%	6.51%	6.27%

Continued

OPERATING INDICATORS BY FUNCTION

For the Fiscal Years 2002-2009

	2009	2008	2007	2006	2005
Environment and Natural Resources					
Department of Environment and Natural Resources					
Public drinking water systems in compliance	95%	95%	95%	94%	93%
Visitation to Museum of Natural Sciences	763,763	727,000	667,014	622,915	556,422
Visitation to NC Zoo	729,615	729,500	746,650	682,977	705,030
Wildlife Resources Commission					
Hunting licenses sold	212,361	211,780	204,425	204,451	107,242
Fishing licenses sold	560,282	538,800	511,974	451,412	331,688
Vessels registered	143,071	140,573	142,808	363,641	354,096
Public Safety and Correction					
Department of Correction					
Incarcerated offenders	40,824	39,112	38,218	37,121	36,481
Supervised offenders	114,367	116,927	117,164	116,513	117,611
Adminstrative Office of the Courts					
Cases disposed as a % of cases filed-Superior Court	97.40%	98.50%	98.50%	93.80%	95.52%
Cases disposed as a % of cases filed-District Court	100.00%	98.28%	98.70%	98.10%	97.56%
Agriculture					
Department of Agriculture and Consumer Services					
Motor fuel dispensers tested (b)	99,461	98,736	100,928	109,699	95,735
Rejection rate	10.29%	12.73%	13.80%	10.77%	8.87%
Retail scales tested (c)	33,329	24,640	20,051	24,896	27,678
Rejection rate	11.11%	10.51%	10.70%	8.28%	9.09%

Notes:

(a) A significant portion of the increase in Medicaid recipients from 2005 to 2006 is the result of legislation moving children formerly covered under State Child Health Insurance Program to Medicaid for 2006. This change resulted in minimal additional cost to the Medicaid program.

(b) Governed by Gasoline and Oil Inspection Law (G.S. 119)

(c) Governed by North Carolina Weights and Measures Act (G.S. 81A)

Information prior to 2002 is not available.

Table 18

2004	2003	2002
94%	93%	95%
913,751	518,132	517,058
676,956	576,093	671,619
107,572	109,511	114,304
329,314	302,581	343,045
361,134	354,863	358,007
34,990	33,378	32,856
117,196	118,285	117,374
96.27%	93.40%	94.28%
95.92%	97.46%	96.76%
103,026	80,390	85,353
7.22%	9.25%	9.99%
23,335	29,021	24,021
8.70%	7.54%	7.07%

CAPITAL ASSET STATISTICS BY FUNCTION

For the Fiscal Years 2002-2009

	2009	2008	2007	2006	2005	2004
Primary Government						
General Government						
Department of Administration						
Buildings	129	129	135	136	134	132
Parking lots	23	49	49	49	17	18
Parking spaces	7,408	8,477	8,215	8,156	7,879	7,961
Motor Fleet vehicles	8,784	9,090	9,506	10,785	16,145	14,592
Health and Human Services						
Mental Health Institutions	13	12	12	12	12	12
Number of certified beds	4,346	4,932	4,961	5,009	4,885	5,083
Environment and Natural Resources						
Department of Environment and Natural Resources						
Number of state park lands	35	34	33	32	32	30
Acres of state park lands	144,806	140,254	119,664	222,251	182,251	176,146
Number of state recreation areas	4	4	4	4	4	4
Acres of state recreation areas	12,240	12,240	12,240	12,240	12,240	12,240
Number of state natural areas	19	17	18	14	17	17
Acres of state natural areas	20,910	20,281	34,288	32,930	30,513	30,323
Number of state lakes	7	7	7	7	7	7
Acres of state lakes	29,135	29,135	29,135	29,135	29,135	29,135
Zoo animals (a)	1,565	1,723	1,786	1,942	2,024	2,643
Vehicles	1,912	1,862	1,789	1,723	1,618	1,574
Boats/Trailers	1,390	1,325	1,295	366	327	308
Aircraft	47	48	45	30	40	40
Scientific equipment	5,058	4,702	4,666	4,454	3,979	3,572
Wildlife Resources Commission						
Number of Game Lands	59	58	54	38	37	35
Acres of Game Lands	468,570	471,248	431,449	341,351	317,467	325,794
Public Safety and Correction						
Department of Correction						
Close security prisons	14	13	13	13	13	16
Medium security prisons	26	26	26	26	26	24
Minimum security prisons	39	39	39	39	37	36
Vehicles:						
Passenger/Cargo vans	116	129	170	99	85	69
Inmate transfer vans/buses	472	497	448	481	418	398
Inmate workcrew vans/buses	291	306	274	301	380	394
Pickup trucks	308	309	305	287	275	325
Roving patrol pickups	89	100	80	84	78	77
One ton maintenance trucks	107	103	105	105	92	98
Specialty/Other trucks (b)	110	125	109	103	113	108
Enterprise Vehicles:						
Passenger/Cargo vans	22	23	22	23	24	31
Inmate workcrew buses	26	28	24	21	22	21
Pickup trucks	59	52	51	47	51	41
One ton maintenance trucks	22	20	18	18	16	21
Other/Specialty trucks	103	104	98	93	95	86

Table 19

2003	2002
132	132
20	N/A
8,249	N/A
13,190	13,098
12	12
5,220	5,390
30	30
173,833	172,763
4	4
12,240	12,238
16	14
28,999	27,643
7	7
29,135	29,135
2,411	2,059
1,471	1,403
278	254
39	39
3,366	3,155
34	33
288,238	294,471
13	13
24	24
36	39
67	61
391	386
349	351
248	277
64	55
99	112
103	94
29	30
25	28
45	41
18	21
91	88

Continued

CAPITAL ASSET STATISTICS BY FUNCTION

For the Fiscal Years 2002-2009

	2009	2008	2007	2006	2005	2004
Department of Crime Control and Public Safety						
Vehicles:						
Alcohol Law Enforcement						
Cars/SUV's	156	150	151	156	134	154
State Highway Patrol						
Cars	2,692	2,722	2,530	2,417	2,283	2,312
Trucks/Vans	128	111	115	114	59	63
Motorcycles	19	16	16	9	(c)	(c)
Air craft:						
State Highway Patrol						
Helicopters	8	8	8	13	14	11
Transportation						
Department of Transportation						
Pavement in lane-miles:						
Primary subsystem	(d)	14,885	14,871	14,833	14,805	14,760
Secondary subsystem	(d)	64,553	64,390	64,209	64,204	64,085
Bridges:						
Number of bridges	13,222	13,152	13,053	13,007	12,961	12,916
Number of culverts	5,007	5,004	4,979	4,912	4,879	4,761
Vehicles	9,349	8,850	8,850	5,823	6,347	7,466
Heavy Equipment	13,216	12,116	8,920	3,119	3,359	3,788
Component Units						
Higher Education						
Community Colleges						
Buildings	1,097	1,046	1,024	1,014	1,025	1,064
Universities						
Academic/Administrative buildings	933	911	971	930	918	893
Dormitories/Auxiliary buildings	560	523	613	583	565	537
Medical (e)	39	58	58	51	51	51
University System Hospitals						
Administration	4	4	4	4	4	4
Clinical	12	11	11	10	10	10
Facility services	6	6	6	6	6	6
Hospital	5	4	4	4	4	4

Notes:

(a) 500-600 fish were lost due to aquarium malfunction in 2005.

(b) Includes boom trucks, cranes, flat beds, rollbacks, yard trucks, dump trucks, semi-trucks, etc.

(c) Prior year data from the source was not available.

(d) Recent data from the source was not available, as of the date of publication.

(e) East Carolina Teaching Hospital

Information prior to 2002 is not available.

Table 19

2003	2002
124	127
1,799	1,846
65	99
(c)	(c)
11	11
14,705	14,670
63,910	63,820
12,839	12,806
4,683	4,620
7,015	6,182
3,741	3,448
1,054	1,043
873	866
524	510
51	51
4	3
10	10
6	6
4	4

REQUIRED SUPPLEMENTARY INFORMATION
TEN-YEAR CLAIMS DEVELOPMENT INFORMATION
PUBLIC SCHOOL INSURANCE FUND
For the Fiscal Years Ended June 30, 2000-2009

The following table illustrates how earned revenues (net of reinsurance) and investment income of the Public School Insurance Fund (the Fund) compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the Fund for the last ten fiscal years ended June 30. The rows of the table are defined as follows:

(1) Total of each fiscal year's earned contribution revenues, investment revenues, contribution revenues ceded to excess insurers or reinsurers, and amount of reported revenues net of excess insurance or reinsurance.

(2) Each fiscal year's other operating costs of the Fund, including overhead and claims expense not allocable to individual claims.

(3) The Fund's incurred claims (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (before the effect of loss assumed by excess insurers or reinsurers), the loss assumed by excess insurers or reinsurers, and total net amount of incurred claims and allocated claim adjustment expenses.

(4) Cumulative amounts paid as of the end of successive years for each policy year.

(5) The most current reestimated amount of losses assumed by reinsurers for each accident year. The amount can and will be changed as claims and expenses are reevaluated.

(6) The reestimated net incurred claims and expenses based on the information available as of the end of the year. This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known.

(7) Comparison of the latest reestimated net incurred claims amount to the amount originally established (line 3) and indication of whether this latest estimate of claims cost is greater or less than originally thought.

REQUIRED SUPPLEMENTARY INFORMATION
TEN-YEAR CLAIMS DEVELOPMENT INFORMATION
PUBLIC SCHOOL INSURANCE FUND

For the Fiscal Years Ended June 30, 2000-2009 *Table 20*

As data for individual policy years mature, the correlation between original estimated and reestimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. The columns in the table present data for successive policy years. Amounts are expressed in thousands.

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
1) Required contribution and investment revenue:										
Earned	$6,687	$8,136	$9,599	$12,255	$10,826	$16,219	$12,538	$14,509	$18,430	$18,054
Ceded	1,727	2,453	2,839	3,396	3,121	2,380	2,489	3,077	2,371	3,642
Net earned	4,960	5,683	6,760	8,859	7,705	13,839	10,049	11,432	16,059	14,412
2) Unallocated expenses	2,541	3,214	3,597	3,953	3,689	2,951	3,092	3,672	664	680
3) Estimated claims and expenses, end of policy year:										
Incurred	21,141	6,449	4,846	2,690	12,586	2,093	3,096	14,915	1,718	2,253
Ceded	—	—	—	—	—	—	—	—	—	—
Net incurred	21,141	6,449	4,846	2,690	12,586	2,093	3,096	14,915	1,718	2,253
4) Paid (cumulative) as of:										
End of policy year	13,158	422	392	1,921	10,381	3,129	3,130	15,174	1,426	1,746
One year later	15,818	2,475	640	2,765	12,788	3,536	4,005	19,270	2,016	
Two years later	17,368	2,475	640	3,219	13,120	3,536	4,005	19,270		
Three years later	17,368	2,475	640	3,681	13,120	3,536	4,005			
Four years later	17,368	2,475	640	3,681	13,120	3,536				
Five years later	17,368	2,475	640	3,681	13,120					
Six years later	17,638	2,475	640	3,681						
Seven years later	17,638	2,475	640							
Eight years later	17,638	2,475								
Nine years later	17,638									
5) Reestimated ceded claims and expenses	—	—	—	—	—	—	—	—	—	—
6) Reestimated net incurred claims and expenses:										
End of policy year	21,141	6,449	4,846	2,690	12,586	2,093	3,096	14,915	1,718	2,253
One year later	17,240	2,475	4,846	3,543	12,911	2,093	3,096	11,348	1,653	
Two years later	17,368	2,475	4,846	3,947	12,911	2,093	3,096	11,348		
Three years later	17,368	2,475	4,846	3,947	12,911	2,093	3,096			
Four years later	17,368	2,475	4,846	3,947	12,911	2,093				
Five years later	17,368	2,475	4,846	3,947	12,911					
Six years later	17,368	2,475	4,846	3,947						
Seven years later	17,368	2,475	4,846							
Eight years later	17,368	2,475								
Nine years later	17,368									
7) Increase (decrease) in estimated net incurred claims and expenses from end of policy year	(3,773)	(3,974)	—	1,257	325	—	—	(3,567)	(65)	—

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Accounting and Financial Reporting Section
North Carolina Office of the State Controller
1410 MAIL SERVICE CENTER
Raleigh, North Carolina 27699-1410

Phone requests can be made at **(919) 981-5454** or **(919) 981-5560** (FAX)

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North Carolina Mountain Region Facts

- North Carolina's mountains contribute to three primary ranges: the Black, Blue Ridge and Great Smoky Mountains.
- In North Carolina, there are more than 120 species of trees, more than you'll find from Scandinavia to the Mediterranean Sea.
- You can hike from the bottom to the top of one of our 6,000-foot peaks and see almost every kind of flora you could encounter in driving from Georgia to Canada.
- Three hundred miles of the Appalachian Trail wind through North Carolina's mountains.
- North Carolina has more than 300 waterfalls, including Whitewater Falls, a 411-foot, two-tiered cascade that is the highest on the East Coast. There are more than 250 waterfalls and 200 miles of mountain streams in Transylvania County alone.
- Mt. Mitchell, at 6,684 feet, is the highest mountain in the eastern United States.
- Sliding Rock, in Transylvania County, is a popular natural water slide. Eleven thousand gallons of water per minute rush visitors down 67 feet of smooth stone, depositing them into a 7-foot-deep pool at the end of the ride.
- The New River is the oldest river in the nation and the second oldest in the world.
- The Blue Ridge Parkway, our nation's most scenic byway, stretches 250 miles in North Carolina, from Cherokee and the entrance to the Great Smoky Mountains National Park to the Virginia-North Carolina border and beyond.
- The oldest stand of virgin timber in the eastern United States is in North Carolina's mountains at Joyce Kilmer National Forest, where some trees are more than 400 years old and are among the tallest living organisms in the Eastern United States.
- The Uwharrie Mountains in Montgomery County are thought to be the oldest mountains in North America and are among the oldest in the world at more than 600 million years old.
- The Biltmore House, a 250-room French chateau, was completed in 1895 as the summer home of George Vanderbilt. Located in Asheville, it is the largest privately owned residence in America.

More information on North Carolina mountains can be found at www.visitnc.com